



**Lukhanji Municipality
BUDGET STRATEGY AND
EXPENDITURE FRAMEWORK**

FOR

2016/17 – 2018/19

ADOPTED MARCH 28, 2016

1. Table of Contents

No.	Section description	Page
1	Table of Contents – Listing of Schedules, Tables and Graphs	1
2	Mayor’s Foreword	4
3	Budget Related Resolutions	6
	The Budget	
4	Executive Summary	8
5	Budget Schedules (operating and capital)	34
6	Budget Related Charts and Explanatory Notes	45
	Supporting Documentation	
7	Budget Process Overview (including consultation process and outcomes)	50
8	Alignment of Budget with Integrated Development Plan	55
9	Budget Related Policies Overview and Amendments	61
10	Budget Assumptions	65
11	Funding the Budget (including fiscal overview and sources of funding)	70
12	Disclosure on Allocations Made by the Municipality	87
13	Disclosure on Salaries, Allowances and Benefits	88
14	Monthly Cash Flows by Source	92
15	Measurable Performance Objectives (Revenue Source & Vote)	99
16	Disclosure on Implementation of MFMA & Other Legislation	101
17	Summary of Budgets/SDBIPs – departmental/functional (internal)	123
18	Summary of Budgets and SDBIPs – entities & other external mechanisms	123
19	Summary of Detailed Capital Plan	124
A	Appendix A – Rates and Tariffs	192
B	Appendix B – New and Amended Policies	200

Listing of Schedules, Tables and Graphs

No.	Description	Page
	Total Revenues Summary Pie Chart	18
	Total Expenditures Summary Pie Chart	19
	Functional Organizational Chart	33
Table A1	Budget Summary	35
Table A2	Budgeted Financial Performance (revenue and expenditure by standard classification)	36
Table A3	Budgeted Financial Performance (revenue and expenditure by municipal vote)	37
Table A4	Budgeted Financial Performance (revenue and expenditure)	38
Table A5	Budgeted Capital Expenditure by Vote, standard classification and funding	39
Table A6	Budgeted Financial Position	40
Table A7	Budgeted Cash Flows	41
Table A8	Cash backed reserves/accumulated surplus reconciliation	42
Table A9	Asset Management	43
Table A10	Basic Service Delivery Measurement	44
Chart 1	Operating Revenue by Source	46
Chart 2	Operating Expenditure by GFS Function	47
Chart 3	Capital Expenditure by Vote	48
Chart 4	Capital Funding by Source	49
Table SA4	Reconciliation of IDP to Budget - Revenue	58
Table SA5	Reconciliation of IDP to Budget - Operating Expenditure	59
Table SA6	Reconciliation of IDP to Budget - Capital Expenditure	60
	Listing of Budget Assumptions	66
Table SA10	Funding Measurement	72
Table SA8	Performance Indicators and Benchmarks	73
Table SA15	Investment Particulars by Type	76
Table SA16	Investment Particulars by Maturity	77
Table SA18	Transfer and Grants receipts	80

Table SA19	Expenditures on transfers and grant programme	81
Table SA 20	Reconciliation of transfers, grant receipts and unspent funds	82
Table SA17	New Borrowing	86
Table SA21	Transfers and grants made by the municipality	87
Table SA23	Disclosure of Salary, Allowance and Benefits (political office bearers/councillors/senior managers)	89
Table SA22	Summary of councillor and staff benefits	90
Table SA24	Summary of Personnel Numbers	91
Table SA25	Budgeted monthly revenue and expenditure	93
Table SA26	Budgeted monthly revenue and expenditure (municipal vote)	94
Table SA27	Budgeted monthly revenue and expenditure (standard classification)	95
Table SA28	Budgeted monthly capital expenditure (municipal vote)	96
Table SA29	Budgeted monthly capital expenditure (standard classification)	97
Table SA30	Budgeted monthly cash flows	98
Table SA34a	Capital expenditure on new assets by asset class	124
Table SA35	Future financial implications of the capital budget	126
Table SA36	Capital expenditures by Source/Ward	127
	Appendix A – Rates and Tariffs	192

FOREWORD BY EXECUTIVE MAYOR

Lukhanji is a great place with a great future.

As a Council, our goals remain the same: to work with our employees, our community, the businesses sector and higher levels of government to create a locality that is independent, sustainable, more prosperous and more democratic.

The last year has been a time of challenge and substantial progress. We have made significant strides to improve the institution internally and address plaguing issues in our external environment albeit with varying degrees of accomplishment.

The coming year will see further major developments across Lukhanji. Our strategy for the 2016/17 financial year must however be about getting back to basics and as such, our capital expenditure plans should reflect that strategic intent. A capital budget amounting to R73.6 Million is proposed for the 2016/17 financial year. With that allocation, and based on our commitment to get back to basics, we anticipate spending the allocation on:

- Upgrade of Rural Gravel Roads
- Intermodal Taxi Rank
- Lukhanji community Lighting
- Construction of Shearing Shed
- Community Hall Ward 1
- Lesseyton Sportfield
- New Cemetery at Ilinge
- New Lesseyton Cemetery
- Community Hall Ward 17
- Qwabi Bridge Over Kuzitungi River
- Maintenance of Surface Roads in Ezibeleni, Sada, Mlungisi & Ilinge
- 5 Year Electricity Master Plan
- Paving of Scalen Street
- Mlungisi Small Business Centre

Despite the limited successes achieved during the 2015/16 fiscal year, Lukhanji and the Council are facing extremely difficult times as a result of the austerity measures introduced by national government. This comes in the face of the fact that Lukhanji still has severe inequalities, areas of high unemployment and low skills, and the challenges (as well as the opportunities) of a large, growing, young and highly diverse population. These challenges need empowering, consistent and responsible leadership.

The proposed operating budget increases from R551.8 million in 2015/16 to R608.6 Million for the 2016/17 financial year while the Equitable Share Allocation from the National Treasury decreased to R107, 291,000 from the 2015/16 allocation of R117, 676,000.

The proposed budget is all about getting back to basics. We need to convince ourselves going forward, that the hard choices we are about to entertain are the only

real options. Should we fail to make those hard choices, we dare not feel offended if we are blamed of intransigence

This budget is probably not what we as leaders and the community at large expect, but it is the responsibility of this Council to make it work to the benefit of all. The public will demand no less and they are increasingly impatient.

Fellow citizens, we have explained how we want to improve partnership working and the involvement of local communities to agree a clear vision for Lukhanji, and how we can work together to deliver this. This budget document underpins and sets out our vision, context and priorities. The accompanying Budget Report provides further detail on our resource plans and operational approaches.

We look forward to working with the Lukhanji Community, elected members, our staff and partners across all sectors over the coming year, to return back to basics and plan how to deliver the positive and progressive future vision for Lukhanji.



N MAKANDA
EXECUTIVE MAYOR

3. Budget Related Resolutions

1. Council resolves that the final annual budget of the municipality for the financial year 2016/17 and indicative for the two projected outer years 2017/18 and 2018/19 be adopted as set-out in the following tables:

- 1.1. Budgeted Financial Performance (revenue and expenditure by standard classification) **Table A2.**
- 1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote) **Table A3.**
- 1.3. Budgeted Financial Performance (revenue and expenditure by source) **Table A4.**
- 1.4. Budgeted Capital Expenditure by vote, standard classification and funding **Table A5.**
- 1.5. Budgeted Financial Position **Table A6.**
- 1.6. Budgeted Cash Flows **Table A7.**
- 1.7. Cash Backed Reserves/accumulated surplus Reconciliation **Table A8.**
- 1.8. Asset Management **Table A9.**
- 1.9. Basic Service Delivery **Table A10.**
2. Council resolves that property rates and any other municipal taxes reflected in **appendix A** are imposed for the budget year.
2. Electricity tariffs be imposed at 9.4% approved by Nersa for bulk purchases with effect 1 July 2016.
3. Council resolves that tariffs and charges reflected in **appendix A** are approved for the budget year.
- 3.1 Council resolves that the Electricity tariffs for non-indigent consumers be approved with 9.4% with effect 1 July 2016.
- 3.2 Council resolves that the monthly electricity tariffs for registered indigents for the financial year be approved as follows:

First 50 Kw	Free
In excess of 51Kw	Increase of 9.4%
4. Council resolves that the measurable performance objectives for revenue from each source reflected in **table 10** are approved for the budget year.
5. Council resolves that the measurable performance objectives for each vote reflected in **section 17** are approved for the budget year 2016/17.
6. Council resolves to adopt the amended Integrated Development Plan as submitted.
7. That the **7.0%** provided for salary increases for employees is maintained.
8. That indigent income levels are set at the following:

Destitute indigent	R 1550
Indigent	R 2520

**LUKHANJI MUNICIPALITY RESOLUTION ON LEVYING PROPER RATES IN TERMS OF SECTION 14 OF
THE GOVERNMENT: MUNICIPALITY PROPERTY TARES ACT, 2004(ACT NO.6 of 2004)**

Note No. 03

Date 2016/03/31

MUNICIPALITY NOTICE NO: 03 OF 2016

NAME OF THE MUNICIPALITY: Lukhanji Municipality – EC 134

RESOLUTION LEVYING PROPERTY RATES FOR THE FINANCIAL YEAR 1 JULY 20XX TO JUNE 20XX

Note is hereby given in terms of section 14(1) and (2) of the Local Government: Municipal Property Rates Act, 2004; that the council resolve by way of council resolution number XXX, to levy the rates on property reflected in the schedule below with effect from 1 July 20XX.

Category of property	Cent amount in the Rand rate determined for the relevant property category
Residential property	0.007539
Business and commercial	0.0095319
Industrial property	0.0095319
Agricultural property	0.0019245
Mining property	0.0095319
Public service infrastructure property	0.0019245
Public benefit organisation property	0.0019245

Issued by the Department of Cooperative Government on 10 April 2014

Full details of the Council resolution and rebates, reductions and exclusions specific to each category of owners of property on owners of a specific category of property as determined through criteria in the municipality rates polity are available for inspection on the municipality's offices, website (www.municipality.gov.za) and all public libraries.

NAME: N. Gqiba

DESIGNATION: MUNICIPAL MANAGER

107 CARTCAHT ROAD, 045 807 2606

BUSINESS ADDRESS AND TELEPHONIC DETAIL OF THE MUNICIPALITY

The Budget

4 Executive Summary

The Municipal Finance Management Act (MFMA) section 16(2) and the related Circulars that have been distributed by the National Treasury in particular circular 78, 79 and 80 require that the Mayor table a three year medium term budget strategy and expenditure framework to the Lukhanji Municipal Council by the end of March for the financial year beginning July 1,2016 and ending June 30,2017.

The tabled budget is to be taken out to the public for consultation and then with all revisions be brought back to the entire municipal council for approval before the beginning of the new financial year as required in the MFMA. This final budget to be brought back to council will incorporate any of the submissions and changes that are deemed required by the Mayor.

Most of the requirements of the MFMA concerning the budget content and documentation are in place for this budget process and were incorporated into this budget document. Major requirements of the MFMA include:

- 1) The budget must set out 'realistically anticipated revenues' for the year by each revenue source;
- 2) The budget must be generally divided between capital and operating expenditures and each must be set out by 'vote';
- 3) Expenditures can only be funded by 'realistic' revenues, surplus cash carried forward and not committed to any other expenditure or borrowed funds (borrowed funds can only be used to fund capital projects). There are many other format requirements for the budget that are too numerous to mention here, however, a complete listing can be found in section 17 of the MFMA.

The preparation of this budget document evolved the making of critical policy decisions and key strategies and policy directions that were given by the Budget Steering Committee over the past months. In August of 2015 the Budget Steering committee approved a set of assumptions and forecasts that were then used to prepare 'baseline' budgets. These 'baseline' budgets formed the basis for operating budget discussions and these were given to the Directors to review and revise within given guidelines. These revised baseline budgets returned by the directors then formed the basis for the draft budget that was built upon by key assumptions and decisions (*see section 10 for a discussion of budget assumptions*).

The budget and financial policies used to develop this budget are focused on making Lukhanji financially sustainable in the long run. One of the biggest challenges facing the municipality in the near future is maintaining an operating year end cash balance to allow for positive operating cash flows and unexpected contingencies.

Cost Containment measures

In the 2016 State of the Nation Address by the President, the cost containment measures announced by the Minister of Finance in 2013 were re – emphasized. It was highlighted that excessive and wasteful expenditure has been reduced, but there is still more to be done to cut

- Curtailment of overseas trips and the submission of strong motivations by those requesting to travel
- Institution of further restrictions on conferences, catering, entertainment and social functions.

Circular No79 requested Mayors of municipalities to join in eliminating the above mentioned wasteful expenditure in government.

Municipal Budget has taken cognizance of internal and external factors such as:

Resolving Energy Crisis

Promotion of the SMME

Improve audit outcomes

Promote wellness of our employees

Enforcement of bylaws

Community needs such as building of halls and maintenance of roads

It must be noted that Lukhanji municipality will cease to exist by the end of this financial year. Plans are under way for the municipality to be merged with two other municipalities to form one municipality. The budget as outlined below therefore will not be implemented as is but will be consolidated with the budgets of the other two municipalities.

The budget below is the proposed budget for Lukhanji Municipality:

As presented, the Lukhanji Municipality Budget for 2016/17 balances expenditures with revenues and available cash balances as required by the MFMA. In addition, we anticipate maintaining our goal of keeping an operating cash reserve of 30 days.

The total budget for the municipality for the 2016/17 financial year is proposed at **R682.2 million**. This comprise of an operational budget of R608.6 million and a capital budget of R73.6 million.

Operating Revenues are anticipated to reach **R608.6Million** (including currently known grants received for operational expenditures) and **operating expenditures;** funded from cash carry forwards and operating revenues are proposed at **R608.6 Million**.

The Capital Budget is funded from a blend of conditional grants and cash carried forward from prior years. Capital budget spending for 2016/17 are estimated to total **R73.6 Million** for a variety of projects and capital purchases.

Council to note that the allocation of Equitable Share has decreased by 7%, MIG also decreased by 10% and MSIG decreased by 73% this therefore means the continuity of programmes will be compromised as the Municipality is grant dependent .Below is the detail of reduction:

Grant	2016/17	2017/18	2018/19
Equitable Share	107 291 070	106 287 503	112 457 562
FMG	1 810 000	1 970 778	2 055 311
MSIG	250 000	262 667	0
EPWP	1 767 297	0	0
ISDG	2 800 000	2 800 000	2 800 000
MIG	36 393 557	35 567 567	37 573 323
INEP	5 000 000	8 000 000	12 000 000

In preparing the budget many issues emerged that had to be taken into account. Several assumptions were utilized to produce estimates and forecasts. In addition, many policy decisions were incorporated into this budget document. The following list attempts to give the most significant of these.

Operating Revenues

- Revenues are shown on a ‘billed’ (or accrual) basis where applicable. In many cases revenue billed is much higher than cash actually collected on that billing. An offsetting bad debt expense is also included for each billed revenue vote. This expense must be considered in any revenue discussion. **Allocations for bad debt** include the following amounts.
 - Electricity 28.2 million
 - Rates 22.3 million
 - Refuse Collection 14.4 million
- **Rates and tariffs** in most cases contain proposed increases. A detailed listing and explanation of these is included in this document (see appendix A). To summarize these recommended increases:
 - Electricity 9.4% increase

- Rates 6.8% increase
- Refuse Collection 8.0% increase
- Whereas the budget recommends the free basic package that will subsidize the indigent customers.
 - Electricity subsidy will be 50kwh per month
 - Refuse Removal and Property Rates will be subsidized in full as per the annual budget.
- The **Equitable Share** Allocation from the National Treasury is **R107, 291,000** which is down from the current budget of R117, 676,000. It must be noted that this equitable share is the municipality's share of its equitable share allocated for Enoch Mgijima Local Municipality (EC139).

One notable observation from the 2016 DORA allocation is that equitable share allocations and some conditional grants will show gradual reductions at least in the MTERF. This has implications for the municipality. The municipality will have to increase its own revenue base if we have to continue funding the budget in future.

Operating grants including conditional grants and equitable share have decreased from the R130.0 million in 2015/16 to R120.0 million in the 2016/17 financial year. This has affected the 2016/17 budget negatively as some budget requests have to be taken off from the budget.

- Provision of free basic services has been catered for as follows:

Revenue Sources	Revenue allocated	Provision of FBS	Provision for Bad Debt	Anticipated Cash Revenue
Property Rates	84 955 303	4 247 765	22 268 575	58 438 963
Electricity	221 827 920	6 654 838	28 245 320	186 927 762
Refuse	35 583 571	2 910 000	14 358 177	18 315 394
Total	342 366 794	13 812 603	64 872 072	263 682 119

Operating Expenditures

- **Employee salaries** and related expenses are increased by the level indicated by correspondence from SALGA and circular 78. This amount to a **7.0% increase in 2016/17**. The municipality has not budgeted for

any vacancies in the 2016/17 financial year since Lukhanji municipality will cease to exist by August 2016 giving way to a merged municipality. Employee related cost is budgeted at **R162.5 million** in the 2016/17 financial year.

- Allowances for traditional leaders sitting in Council meetings have been increased from R500.00 a month to R3 000 month as from July 2017.
- **Electricity bulk purchases** are anticipated to **increase by 9.4%** for next year. Bulk Electricity purchases are the single most significant expenditure item for the municipality. The 2016/17 bulk electricity purchases is budgeted at R211.8 million and showed an increase of R23 million over the 2015/16 budget of R188 million.
- All costs related to our current **DBSA loan** and the repayment for **past fleet purchases** will be fully paid up by the end of the current financial year. As a result of this the municipality's operational budget does not show any allocation for interest payment or capital redemption. . This effectively means ,Lukhanji will be joining at Enoch Mgijima with no long term loans instead current liabilities such as creditors
- Repairs and maintenance budget has increased from the R14.8 million in 2015/16 to R21.3 million in the 2016/17 budget. This shows an increase of 50% over last year's budget. This is an indication of the municipality's commitment to maintain its existing assets.
- The town hall has been allocated an additional R3.5 million for the planned renovation in the 2016/17 financial year. This is in addition to the R1.5 million allocated in the 2015/16 adjustment budget.
- **An amount of R4, 53 million has been** allocated in the operating budget for normal street maintenance and resealing of potholes. This is over and above the R12.0 million allocated in the capital budget for the resurfacing of streets in the townships.

Operating Projects

- ❖ Communications unit has been allocated a budget of R800 000 for the 2016/17 financial year. Budget to be used for the municipality's newsletter and other communications programmes.

- ❖ The municipality has also allocated an amount of R595 497 for public participation through involvement of key stakeholders including traditional leaders and other designated groups by June 2019.
- ❖ An amount of R850 000 for wellness programmes. These include mayor's cup, SALGA games and the municipality's choir activities.
- ❖ The audit committee has been allocated an amount of R399 259 their sitting allowances for the 2016/17 financial year.
- ❖ An amount of R6.5 million has been allocated in the 2016/17 financial year for the preparation of Annual Financial Statements and MSCOA. This amount is in addition to R1.2 million allocated from the FMG for the SCOA implementation for the 2016/17 financial year.
- ❖ An amount of R1.7 million has been allocated for the training of municipal employees and the training of new councilors for the 2016/17 financial year.
- ❖ The municipality has allocated also allocated an amount of R278 000 for the improvement of the indigent systems and registration for the 2016/17 financial year.
- ❖ R500 000 has been allocated for the development of the Whittlesea Spatial Development Framework while R1.1 million has been allocated for the municipality's Supplementary Valuation Roll.
- ❖ In the 2016/17 financial year, the LED section will be doing training programmes for the SMMEs and Cooperatives with a budget of R150 000 while R210 525 will be used for the promotion and development of tourism in the Lukhanji area. In the 2016/17 financial year.
- ❖ An amount of R250 000 funded from the MSIG will be used for new councilors induction programmes in the 2016/17 financial year.
- ❖ The municipality has also allocated R1.0 million for the improvement of its ICT / intranet system for the 2016/17 financial year

Capital Budget

The capital budget reflected in this document utilizes actually anticipated revenues and grants from the national DORA allocations to fund the budgeted expenditures of **R72.59 million**. Major sources of funding include the allocation of **R36.4 million** in conditional MIG grants allocated to the municipality, **R5.0 million** Integrated National Electrification grant and **R32.2 million** to be funded from the municipality's surplus cash reserves. No External loan is included in this budget.

- ❖ Upgrade of Rural Gravel Roads for cluster A ,B & C has been allocated R5.0 million for 2016/17 financial year
- ❖ Construction of the intermodal taxi rank has been allocated R5.2 million in the 2016/17 financial year and a further R18.0 million in the 2017/18 financial year in order to complete the multi – year project.
- ❖ An amount of R160 000 has been allocated in the 2016/17 for the completion of the community hall in ward 1. Note that R4.83 million was allocated for this project in the 2015/16 financial year.
- ❖ Ilinge cemetery has been allocated R5.5 million in the 2016/17 financial year in addition to the R1.0 million allocated in the 2015/16 financial year. A further R413 892 will be allocated to the Lesseyton cemetery to complete the project.
- ❖ Ilinge sport field will be allocated a further R2.0 million in the 2016/17 in order to complete the project, while same amount R2.0 million will be allocated to the first phase of the construction of the Mc Bride sport field.
- ❖ An amount of R1.215 million has been allocated for the fencing of grazing camps in various areas. Wards to benefit from these projects are yet to be identified.
- ❖ Community lightening has been allocated R43.0 million for the provision of electricity to various communities in the MTRF with R21.0 million allocated in 2016/17 financial year and a further R9.0 million and R13.0 million in the 2017/18 and the 2018/19 financial years respectively. Identified projects are specified in the capital projects attached.
- ❖ A further R12.0 million has been allocated from the municipality's own funds for the 5 year electricity master plan for the refurbishment of the town's ailing electricity network. For the 2016/17 financial year. Projects to be executed are contained in the attached capital projects plan.
- ❖ National Treasury has also provided an amount of R5.0 million through its DORA allocations for the Integrated National Electrification programme for the Lukhanji municipal area.
- ❖ Community Hall in Ward 17 has been allocated R5.0 million in the 2016/17 financial year.

- ❖ An amount of R800 000 has been allocated for the construction of shearing sheds in wards that are yet to be determined.
- ❖ The Qwabi Bridge over Kuzintungi River will receive R4.5 million in the 2016/17 and a further R6.2 million in the 2017/18 and 2018/19 financial years to complete the project. The bridge will be extended to allow for easy passage of buses and other bigger vehicles plying that route.
- ❖ The maintenance of Surface roads in Ilinge, Ezibeleni, Mlungisi and Whittlesea has been allocated R12.0 million from own funds. These projects were awarded and started in the 2015/16 financial year and will be continued in the 2016/17 financial year.
- ❖ An amount of R3.0 has been allocated from own funds for the completion of the Scalen street for the 2016/17 financial year and another R3.0 million for the revitalization of the Mlungisi small business centre. These projects started in the 2015/16 financial year and are expected to be continuing in the 2016/17 to 2018/19 MTREF.
- ❖ An amount of R3.02 million own funds has been allocated for the procurement of small capital and equipment with R750 000 of that amount allocated for the purchase of stackable chairs for the new halls.
- ❖ An amount of R1.0 million has been allocated for the purchase of a vehicle for the Speaker's Office

BUDGET RELATED POLICIES

The following budget related policies shall form the basis for the implementation of the 2016/17 to 2018/19 MTRF Budget. These policies are added to the budget document in appendix B.

1. Budget Policy
2. Virement Policy
3. Credit control Policy
4. Asset Management Policy
5. Write Off Policy
6. Revised Property Rates Policy
7. Revised Indigent Policy
8. Revised Cash and Investment Policy
9. Revised SCM Policy

There will be two new policies to be added:

1. Irregular, fruitless and unauthorised expenditure policy
2. Contracts management Policy

Conclusion

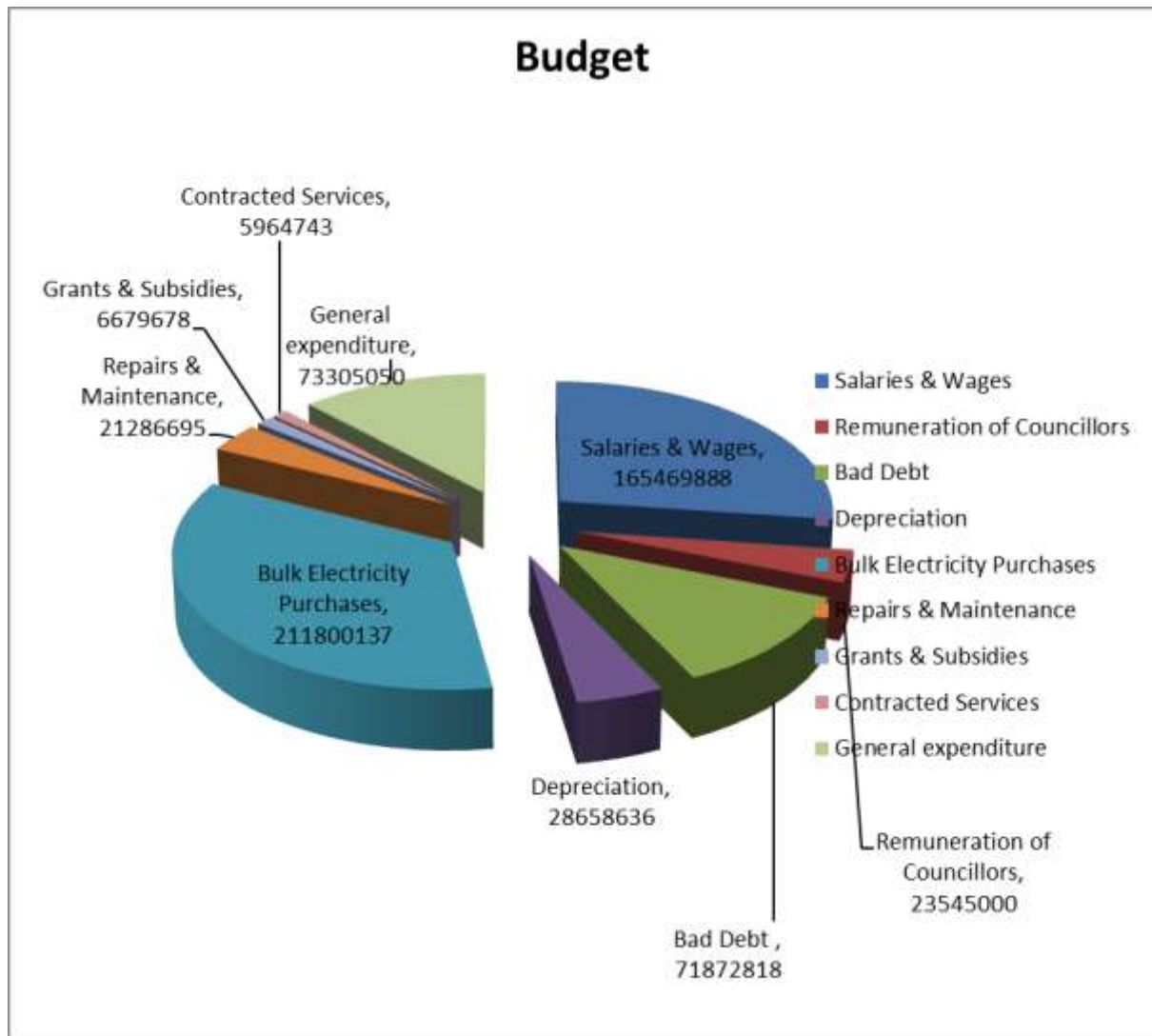
The budget as presented in this document meets the requirements of the Municipal Budgeting Reporting and Regulations and the Municipal Finance Management Act of 2003 and is presented to Council for consideration and revision

The table and charts below show the percentage makeup of the revenue and expenditures for the 2016/17 Lukhanji Budget.

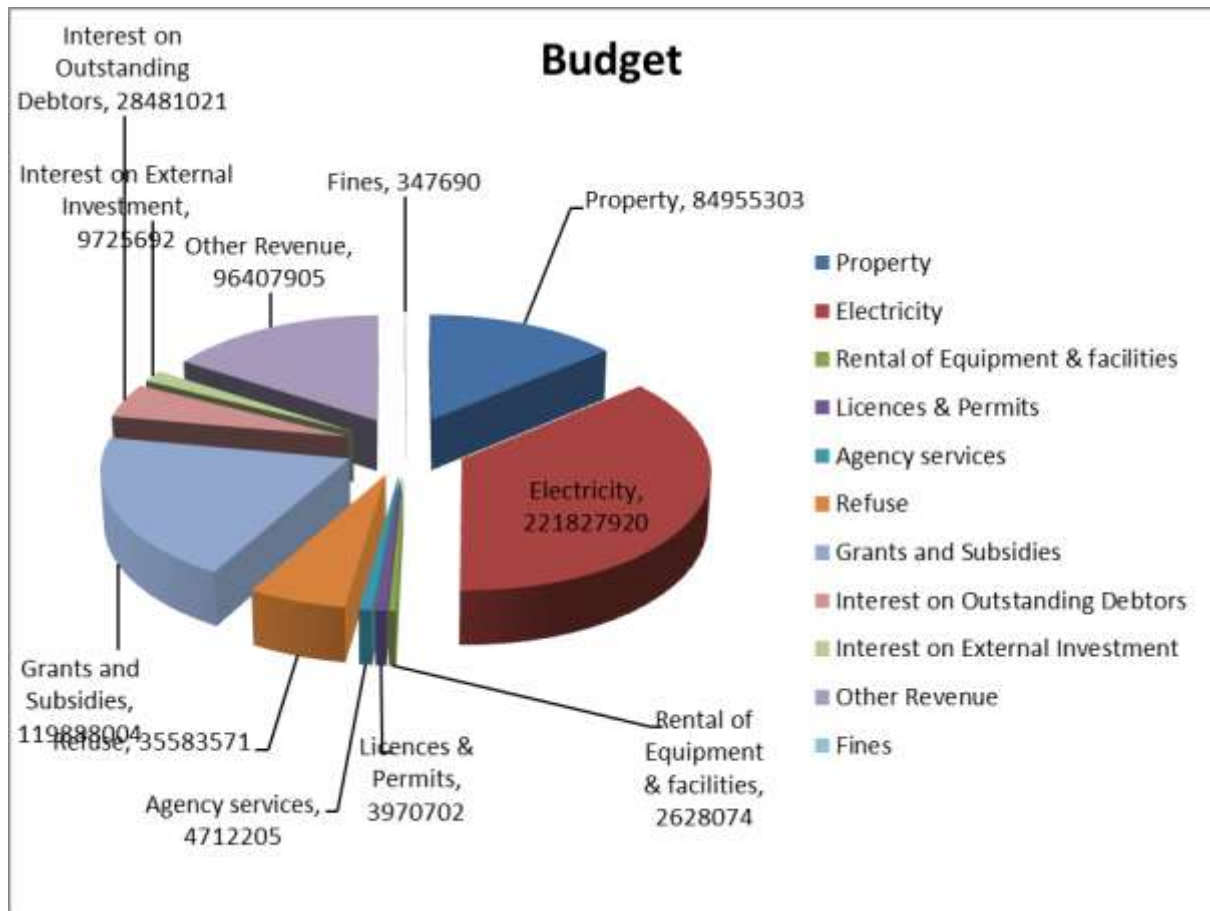
BUDGET SUMMARY				
REVENUE				
Operating Budget R'000			Capital Budget R'000	
Assessment Rates		84, 955	Municipal Infrastructure Grant	36,394
Fines		348	Internally generated own funds	32,200
Electricity tariffs		221,828	Integrated National Electrification	5,000
Refuse		35,638		
Licenses & Permits		3,971		
Rental of Facilities & Equip		2,628		
Gov. Grants & Subsidy		119,888		
Equitable Share	107,291			
Operational Grants	12,597			
Agency Fees		4,712		
Interest earned on External				
Investment		9,726		
Interest on Outstanding Debtors :		28,481		
Other Revenues		96,408		
TOTALS		608,583	TOTALS	73,594

EXPENDITURE				
Operating Budget R'000			Capital Budget R'000	
Salaries, Wages, Allowances & Related Costs		165,470	Upgrade of Rural Gravel Roads	5,000
Councillor Remuneration		23,545	Intermodal Taxi Rank	5,200
General Expenses		73,305	Lukhanji community Lighting	4000
Repairs & maintenance		21,287	Mc Bride	2,867
Payments of municipal debts		0	Construction of Shearing Shead	800
Depreciation & impairment		28,659	Community Hall Ward 1	160
Provisions for bad debts		71,873	Lesseyton Sportfield	2,867
Assessment rates	22,269		New Cemetery at Ilinge	5500
Electricity	28,245		New Lesseyton Cemetery	500
Refuse	14,358		Community Hall Ward 17	3680
Interest on Outstanding debts	7,001		Qwabi Bridge Over Kuzitungi River	4,500
			Operating Grant - MIG	1 820
Contracted Services		5,965	Total MIG	36,394
Operational grants		6,680	Own & Other Funds	
			Maintenance of Surface Roads in Ezibeleni, Sada, Mlungisi & Ilinge	12,000
Bulk Electricity Purchases		211,800	5 Year Electricity Master Plan	12,000
			Paving of Scalen Street	3,000
			Mlungisi Small Business Centre	3,000
			Small Capital & Equipment	1,200
			Speakers Car	1 000
			Total Own funds	32,200
			INEP	5,000
Total		608, 583	Total	73,594

HOW THE TOTAL OPERATING BUDGET OF R608.6 MILLION IS ALLOCATED



HOW THE TOTAL OPERATING REVENUE BUDGET OF R608.6 MILLION IS FUNDED



Lukhanji Adopted Draft Budget 2016/17

LUKHANJI LOCAL MUNICIPALITY							
MTREF OPERATING BUDGET FOR 2016-2019							
DIRECTORATE	KPA	OBJECTIVE	PROJECT	FUNDING SOURCE	2016/17	2017/18	2018/19
Office of the MM	Good Governance and Public Participation	To develop an effective and efficient communication systems that seeks to maximise public participation through involvements of key stakeholders including traditional leaders and designated groups by June 2017	1.Newsletter and Other Communication Programmes		800 000	800 000	800 000
Office of the MM	Good Governance and Public Participation	To develop an effective and efficient communication systems that seeks to maximise public participation through involvements of key stakeholders including traditional leaders and designated groups by June 2018	3.Emblem Automation	MSP Fund	181 955	0	0
Office of the MM	Good Governance and Public Participation	To develop an effective and efficient communication systems that seeks to maximise public participation through involvements of key stakeholders including traditional leaders and designated groups by June 2019	4.Promotional Material	Unknown Grant	151 722	0	0

Lukhanji Adopted Draft Budget 2016/17

LUKHANJI LOCAL MUNICIPALITY							
MTREF OPERATING BUDGET FOR 2016-2019							
DIRECTORATE	KPA	OBJECTIVE	PROJECT	FUNDING SOURCE	2016/17	2017/18	2018/19
Office of the MM	Good Governance and Public Participation	To develop an effective and efficient communication systems that seeks to maximise public participation through involvements of key stakeholders including traditional leaders and designated groups by June 2020	Development of programmes recognising and developing designated groups through municipal programmes (Create a data base of designated groups)	OWN	261 820	261 820	261 820
Office of the MM	Good Governance and Public Participation		Mayors Cup	OWN	350 000	250 000	250 000
Office of the MM	Good Governance and Public Participation		SALGA Games		200 000	200 000	200 000
Office of the MM	Good Governance and Public Participation		Officials Kits for Teams and Choir	OWN	300 000	300 000	300 000
Office of the MM	Good Governance and Public Participation	To create a responsive environment that detects, mitigate and eliminate risks by June 2017	Budgeting and establishment of own Audit Committee	OWN	399 259	423 214	448 607

Lukhanji Adopted Draft Budget 2016/17

LUKHANJI LOCAL MUNICIPALITY							
MTREF OPERATING BUDGET FOR 2016-2019							
DIRECTORATE	KPA	OBJECTIVE	PROJECT	FUNDING SOURCE	2016/17	2017/18	2018/19
Budget and Treasury	Good Governance and Public Participation	Improve internal controls for clean administration purposes by continuous implementation of policies and legislation by June 2017	Compilation Of Annual Financial Statements and SCOA Implementation	OWN	6 487 258	6 811 621	7 152 202
			Improve ICT Systems(Microsoft Licenses/DRC/Intranet)	OWN	1 000 000	800 000	800 000
Corporate Services	Good Governance and Public Participation		SCOA Implementation	OWN	1 000 000	1 000 000	1 000 000
Corporate Services	Institutional Arrangement and Organisational Transformation	To develop an institutional capacity for the benefit of Municipal Councillors and Employees of Lukhanji that promote sound efficient workforce by June 2017	Training Programme for Councillors and officials as per the WSP	OWN	1 706 000	1 706 000	1 706 000
		To develop an institutional capacity for the benefit of Municipal Councillors and Employees of Lukhanji that promote sound efficient workforce by June 2017	Development of Job Descriptions	OWN	250 000	250 000	250 000
IPED	Local Economic Development	To promote and develop tourism	Implementation of tourism sector	OWN	210 525	221 051	221 051

Lukhanji Adopted Draft Budget 2016/17

LUKHANJI LOCAL MUNICIPALITY							
MTREF OPERATING BUDGET FOR 2016-2019							
DIRECTORATE	KPA	OBJECTIVE	PROJECT	FUNDING SOURCE	2016/17	2017/18	2018/19
IPED	Local Economic Development	To promote economic development in the area for the benefit of SMME of Lukhanji so as to alleviate unemployment by June 2017	Training programme for the SMMEs and Cooperatives.	LED Strategy & Hawker Support	150 000	150 000	150 000
Human Settlement	Basic Services and Infrastructure Development	To create sustainable Human Settlements through the provision of affordable housing units in rural and urban areas in accordance with the housing sector plan and SDF by June 2017	Develop Whittle sea SDF	OWN	500 000	0	0
Human Settlement	Financial Viability	To increase municipal revenue by 20% by ensuring full implementation of revenue strategy by June 2017	Implement supplementary valuation roll	Valuation Roll & OWN	1 117 475	1 590 000	1 590 000
Budget and Treasury	Financial Viability	To increase municipal revenue by 20% by ensuring full implementation of revenue strategy by June 2017	Improve indigent system	OWN	278 000	0	0
Budget and Treasury	Good Governance and Public Participation	Improve internal controls for clean administration purposes by continuous implementation of policies and legislation by June 2017	FMG	Salaries and Allowances	610 000	630 000	650 000.00
Budget and Treasury	Good Governance and Public Participation	Improve internal controls for clean administration purposes by continuous implementation of policies and legislation by June	FMG	SCOA	1 200 000	1 148 383	1 228 666.00

Lukhanji Adopted Draft Budget 2016/17

LUKHANJI LOCAL MUNICIPALITY							
MTREF OPERATING BUDGET FOR 2016-2019							
DIRECTORATE	KPA	OBJECTIVE	PROJECT	FUNDING SOURCE	2016/17	2017/18	2018/19
		2019					
Executive Offices	Good Governance and Public Participation	To develop an effective and efficient communication systems that seeks to maximise public participation through involvements of key stakeholders including traditional leaders and designated groups by June 2019	MSIG	Councillors induction	250 000	262 667	
Executive Offices	Good Governance and Public Participation	To develop an effective and efficient communication systems that seeks to maximise public participation through involvements of key stakeholders including traditional leaders and designated groups by June 2019	OWN	Public Participation	250 000	250 000	250000
Technical Services		No Objective	PMU Admin Fees – Lukhanji 2013/14		1 819 678	1 778 383	1 878 666
TOTAL					19 473 693	18 033 139	18 337 012

Lukhanji Adopted Draft Budget 2016/17

MTEF 2016-2019								
DIRECTORATE	KPA	OBJECTIVE	PROJECT	FUNDING	WARDS	2016/17	2017/18	2018/19
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of Pedestrian crossing stream/river	Construction of pedestrian and stream/river crossing in ward 3,6,12,13,22 & 26	MIG	3,6,12,13,22 & 26	R0.00	R2,000,000.00	R3,000,000.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of roads.	Gravel Roads for cluster A,B & C.	MIG	All	R5,000,000.00	R0.00	R0.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of a bridge	Qwabi Bridge over Kuzitungu river Phase 2	MIG	13	R4,500,000.00	R4,000,000.00	R2,194,656.85
Technical Services	Basic Services and Infrastructure Development	Lukhanji Community Lighting phase 3	Various Wards	MIG	Various Wards	R4,000,000.00	R1,000,000.00	R1,000,000.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of roads.	Roads and stormwater projects in Ezibeleni, Ilinge, Sada, Ext 4 Whittlesea, & Mlungisi	MIG	All	R0.00	R1,500,000.00	R1,000,000.00
Technical Services	Basic Services and Infrastructure Development	Ensure provision of safe and affordable public transport services and infrastructure	Completion of the Inter-modal Transport Facility - Queenstown	MIG	All	R5,200,000.00	R0.00	R0.00
Community Services	Basic Services and Infrastructure Development	To ensure effective use and accessibility of entertainment facilities to local communities	Community Hall in Ward 1	MIG	1	R160,000.00	R0.00	R0.00
Community Services	Basic Services and Infrastructure Development	To ensure effective use and accessibility of entertainment facilities to local communities	Community Hall in Ward 17	MIG	17	R5,000,000.00	R1,000,000.00	R10,000,000.00
Community Services	Basic Services and Infrastructure Development	To ensure effective use and accessibility of entertainment facilities to local communities	Construction of Ezibeleni Stadium Phase 2	MIG	4	R0.00	R3,003,250.00	R4,000,000.00

Lukhanji Adopted Draft Budget 2016/17

Community Services	Basic Services and Infrastructure Development	To ensure effective use and accessibility of entertainment facilities to local communities	Construction Sada Stadium Phase 2	MIG	5,9,10,11,12,13,14,18	R0.00	R4,000,000.00	R3,000,000.00
Community Services	Basic Services and Infrastructure Development	Support community services to provide appropriately located, secured and well maintained cemeteries	Ilinge Cemetery	MIG	1,2	R5,500,000.00	R0.00	R2,000,000.00
Community Services	Basic Services and Infrastructure Development	Support community services to provide appropriately located, secured and well maintained cemeteries	Lesseyton Cemetery	MIG	27	R413,892.00	R0.00	R0.00
Community Services	Basic Services and Infrastructure Development	Support community services to provide appropriately located, secured and well maintained cemeteries	Whittlesea Cemetery	MIG	17	R0.00	R1,500,000.00	R1,500,000.00
Community Services	Basic Services and Infrastructure Development	Support community services to provide adequate and appropriate sporting and recreation facilities	Lesseyton sport field	MIG	27	R2,000,000.00	R6,500,000.00	R4,000,000.00
Community Services	Basic Services and Infrastructure Development	Support community services to provide adequate and appropriate sporting and recreation facilities	McBride sport field	MIG	14	R2,000,000.00	R8,070,788.65	R2,000,000.00
IPED	LED	More organised and viable agricultural activities	Fencing of Grazing Camps in Various Areas	MIG	Various Wards	R0.00	R1,215,150.00	R1,000,000.00
IPED	LED	More organised and viable agricultural activities	The Construction of a Shearing Shed in ward ?	MIG		R800,000.00	R0.00	R1,000,000.00
Sub-Total =						R34,573,892.00	R33,789,188.65	R35,694,656.85

Lukhanji Adopted Draft Budget 2016/17

Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	New development - Nomzamo phase 2	INEP	20	R2,880,000.00	R0.00	R0.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2022	New development for 200 military veterans housing units	INEP	19	R2,120,000.00	R0.00	R0.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2022	New Rathwick	INEP	21	R0.00	R2,000,000.00	R3,000,000.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Ezebileni MV & LV Distribution Network (Phase 3)	Own funds		R2,600,000.00	R0.00	R0.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Mulingisi MV & LV Distribution Network (Phase 4)	Own funds		R3,200,000.00	R0.00	R0.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Ebden Substation-Transformer	Own funds		R5,000,000.00	R0.00	R0.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Western Substation Transformer: new 1 x 66/11KV - 15MVA transformers	Own funds			5,800,000.00	
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Stadium Substation Transformer: new 1 x 66/11KV - 10MVA transformers	Own funds			5,152,840.00	
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Ezibeleni MV & LV Distribution Network (Phase 4): Refurbishment MV & LV Distribution Transformers [EZI 11 - EZI 20]	Own funds			4,235,520.00	

Lukhanji Adopted Draft Budget 201617

Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Ezebileni MV & LV Distribution Network (Phase 5): Upgrade 11kV Distribution Transformers [EZI 37 - EZI 46]	Own funds			2,881,578.00	
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Queendustria - MV OW Upgrade: Upgrade 11kV network, poles and support structures	Own funds			2,375,000.00	
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Central Substation- LV Control Panel: Replace LV Distribution Panels in Substation	Own funds			715,000.00	
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	11kV Local Transformer oil gasification (Phase 1): Degasification and Dewatering of Transformer Oil [42 x 11kV Units]	Own funds			956,000.00	
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	66/11kV Transformer oil gasification (Phase 2): Degasification and Dewatering of Transformer Oil [4 x 66kV Units]	Own funds			172,500.00	
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Ezibeleni 11 kV Isolating Point/ Cut Out fuses: Installation of 7 isolating / cut out fuses within the ringfeed network (7 structures)	Own funds			467,000.00	
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Ezebileni 22 kV Eskom Feeder line to Substation: Re-built the feeder line, OW Hare conductor	Own funds				R1,420,000.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Queendustria to Ezebileni 11kV Feeder Line: Upgrade 11kV OW supply from Queendustria to Ezibeleni support structures	Own funds				R455,000.00

Lukhanji Adopted Draft Budget 201617

Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Mlungisi MV & LV Distribution Network (Phase 5): Refurbishment of MV & LV Distribution Network [EZI 25 - EZI 75]	Own funds					R5,247,852.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Ezibeleni 11kV OW Ringfeed Network: Upgrade 11kV OW ringfeed network with Hare Conductor	Own funds					R1,925,000.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	66kV Feeder line from Coldstream to Ebden: Replace 5 sets of 66kV glass insulators, attach earth wire between structures 18F - 15E	Own funds					R347,500.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	66kV -T- Off Switchyard: new 66kV switchyard for T-Off between Ebden and stadium / Western	Own funds					R3,250,000.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Ezibeleni Distribution Transformers: Upgrade transformers - 50kVA to 100kVA	Own funds					R1,665,821.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Feederline to New Rathwick Development: Cosnturct a new 11kV feederline from stadium substation to new Rathwick Development	Own funds					R2,250,000.00
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of electricity infrastructure network by 2021	Substation Perimeter Fencing/ Security/ Alarms, Queendustria, Stadium & Western	Own funds		R1,200,000.00			
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of roads infrastructure network by 2021	Road from Railway line to Ezibeleni – 1Km	Own funds		R3,400,000.00			
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of roads infrastructure network by 2021	Top Street Mlungisi	Own funds		R2,200,000.00			

Lukhanji Adopted Draft Budget 2016/17

Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of roads infrastructure network by 2021	Alexandra Street CBD	Own funds		R2,100,000.00		
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of roads infrastructure network by 2021	Bushell Street CBD	Own funds		R2,200,000.00		
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of roads infrastructure network by 2021	Bell & Woodhouse Streets CBD	Own funds		R2,100,000.00		
Technical Services	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of roads infrastructure network by 2021	Rehabilitate, Refurbish, upgrade, and repair and maintenance of surface roads	Own funds	All	R0.00	R28,000,000.00	R34,000,000.00
ALL	None	To ensure proper provision of tools of trade	Small Capital	Own funds	N/A	R3,019,665.00	R1,778,383.00	R1,878,686.00
IPED	Basic Services and Infrastructure Development	To maintain a safe and acceptable condition of roads infrastructure network by 2021	Scalene Street	Own funds	10	R3,000,000.00		
IPED	LED	More organised and viable agricultural activities	Mlungisi Bussiness Centre	Own funds		R3,000,000.00		
Budget and Treasury	Community participation	Community participation and institutional development	Car for Speaker's Office	Own funds	N/A	R1,000,000.00		
SUB-TOTAL =						R39,019,665.00	R54,533,821.00	R55,439,859.00
GRAND TOTAL =						R73,593,557.00	R88,323,009.65	R91,134,515.85

Lukhanji Adopted Draft Budget 2016/17

PROCUREMENT PLAN

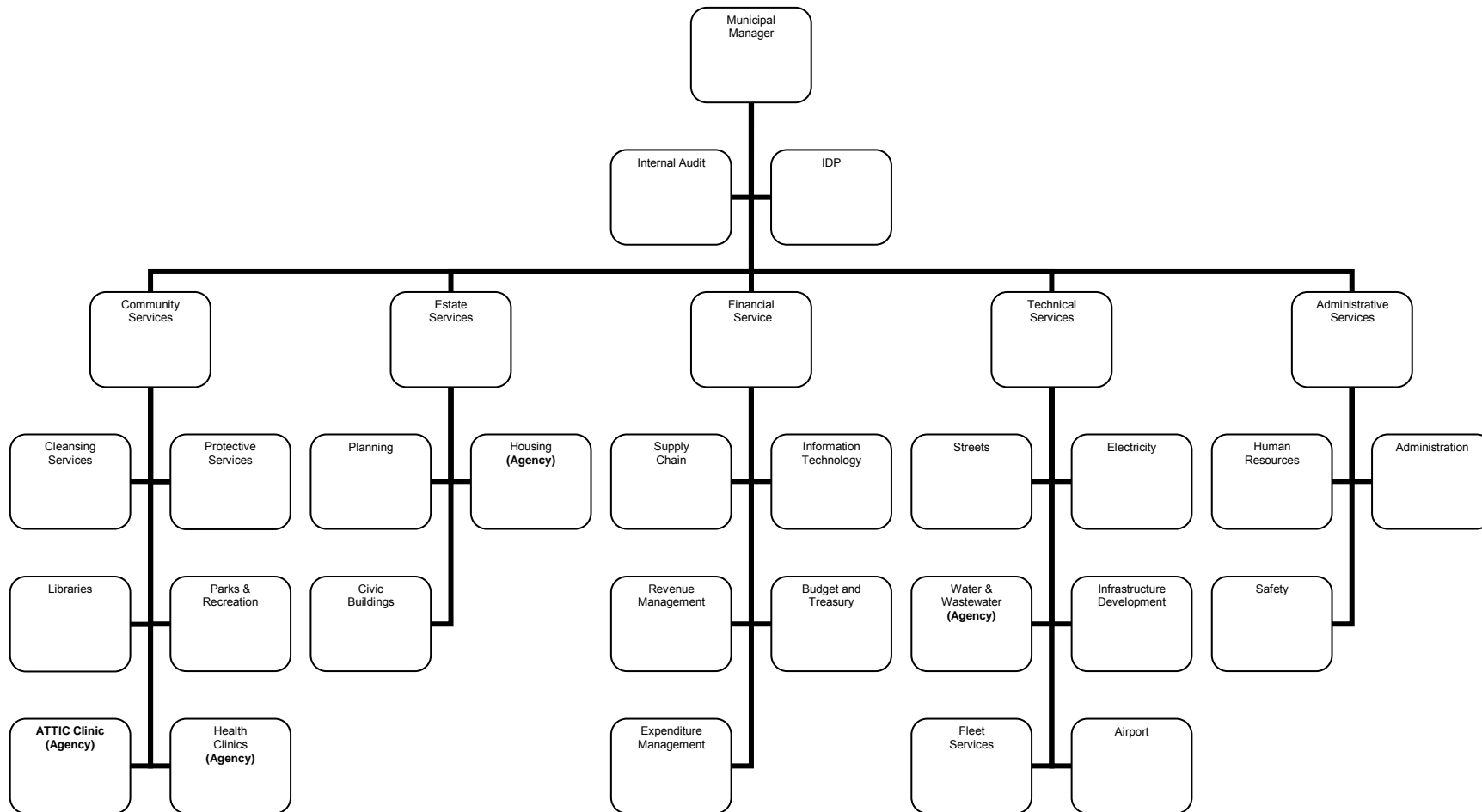
Name of Municipality or Municipal Entity	LUKHANJI LOCAL MUNICIPALITY
Name of Accounting Officer / Delegated Official	MR A. GAJI
Signature of Accounting Officer / Delegated Official	
Telephone Number and e-mail address	AGaji@lukhanji.gov.za

Description of Good/Service/Infrastructure Required	Estimated value including all applicable taxes	Envisaged date of advertisement in the media	Envisaged closing date	Envisaged date of award	Responsible office or End user
Cold Carbon Asphalt	R 192 660.00	28/08/2015	10/09/2015	02/12/2015	Technical services
Supply and delivery of a Jetting Machine	R 509 836.50	09/10/2015	22/10/2015	01/12/2015	Technical services
Supply and delivery of High mast light at Ezibeleni and Queenstown	R 3 160 102.80	06/11/2015	20/11/2015	14/12/2015	Technical Services
Supply and delivery of High mast light at Sada; Whittlesea	R 2 429 134.80	06/11/2015	20/11/2015	14/12/2015	Technical Services
Turnkey design, documentation and project management of community hall ward 17	R 4 495 407.67	19/02/2016	04/03/2016	30/03/2016	Technical services
Supply and delivery of construction material	R 1 394 599.40	13/11/2015	27/11/2015	18/02/2016	Technical services

Lukhanji Adopted Draft Budget 201617

Description of Good/Service/Infrastructure Required	Estimated value including all applicable taxes	Envisaged date of advertisement in the media	Envisaged closing date	Envisaged date of award	Responsible office or End user
Substation switchgear upgrades	R 12 241 268.33	21/10/2015	04/11/2015	18/02/2016	TECHNICAL SERVICES
MV & LV network refurbishment of mlungisi: phase 2	R 3 890 009.48	21/10/2015	04/11/2015	18/02/2016	TECHNICAL SERVICES
Ezibeleni: 11 kv isolating points & open wire network upgrade with a 5 MVA TRANSFORMER	R 4 000 000.00	21/10/2015	04/11/2015	30/03/2016	TECHNICAL SERVICES
11 KV Underground cable upgrade between town hall & Sanlam switchgear	R 1 921 221.63	21/10/2015	04/11/2015	18/02/2016	TECHNICAL SERVICES
Upgrading of gravel road to paving: Mlungisi (or tambo & Thabo Mbeki)	R 10 000 000.00	12/02/2016	04/03/2016	15/04/2016	TECHNICAL SERVICES
Maintenance of surfaced roads: Ezibeleni and Queenstown	R 6 000 000.00	12/04/2016	04/03/2016	15/04/2016	TECHNICAL SERVICES

Lukhanji Adopted Draft Budget 201617



Lukhanji Adopted Draft Budget 201617

5 Annual Budget Tables (Operating & Capital)

These budget schedules are to be approved by resolution of Council and are contained in the following pages:

- 5.1 - Table A1 - Budget Summary**
- 5.2 - Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)**
- 5.3 - Table A3 - Budgeted Financial Performance (revenue and Expenditure by municipal vote)**
- 5.4 - Table A4 - Budgeted Financial Performance (revenue and Expenditure)**
- 5.5 - Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding**
- 5.6 - Table A6 - Budgeted Financial Position**
- 5.7 - Table A7 - Budgeted Cash Flows**
- 5.8 - Table A8 - Cash Backed reserves/accumulated surplus Reconciliation**
- 5.9 - Table A9 - Asset management**
- 5.10 - Table A10 - Basic Service Delivery**

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Table A1 Budget Summary

Description	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousands										
<u>Financial Performance</u>										
Property rates	62,700	74,215	66,069	80,147	80,147	80,147	80,147	84,955	91,752	96,339
Service charges	222,476	250,253	200,864	235,835	235,835	235,835	235,835	257,466	284,587	307,338
Investment revenue	8,326	7,364	8,837	5,650	9,583	9,583	9,583	9,726	9,726	9,726
Transfers recognised - operational	159,975	128,605	129,658	130,819	131,904	131,904	131,904	119,888	117,874	123,757
Other own revenue	39,803	71,004	36,237	108,353	124,905	124,905	124,905	136,548	134,671	137,197
Total Revenue (excluding capital transfers and contributions)	493,280	531,440	441,665	560,802	582,372	582,372	582,372	608,583	638,609	674,357
Employee costs	104,900	141,626	148,721	172,984	162,483	162,483	162,483	165,368	173,499	184,517
Remuneration of councillors	18,065	22,112	20,506	21,536	22,354	22,354	22,354	23,545	24,888	26,281
Depreciation & asset impairment	24,272	–	43,657	26,652	26,652	26,652	26,652	28,659	31,515	34,392
Finance charges	6,397	302	560	57	1,094	1,094	1,094	–	–	–
Materials and bulk purchases	145,054	137,683	164,019	188,770	188,770	188,770	188,770	211,800	219,624	230,184
Transfers and grants	1,660	5,978	–	7,464	8,549	8,549	8,549	6,680	6,986	6,734
Other expenditure	167,711	124,904	64,436	143,339	172,469	172,469	172,469	172,531	182,097	192,250
Total Expenditure	468,058	432,605	441,899	560,802	582,369	582,369	582,369	608,583	638,609	674,357
Surplus/(Deficit)	25,222	98,835	(234)	(0)	3	3	3	0	(0)	0
Transfers recognised - capital	43,692	29,939	37,147	40,971	45,422	45,422	45,422	41,393	41,789	47,695
Contributions recognised - capital & contributed a	25,239	–	13,894	35,731	54,410	54,410	54,410	32,200	46,534	43,440
Surplus/(Deficit) after capital transfers & contributions	94,153	128,774	50,807	76,702	99,835	99,835	99,835	73,593	88,323	91,135
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	94,153	128,774	50,807	76,702	99,835	99,835	99,835	73,593	88,323	91,135
<u>Capital expenditure & funds sources</u>										
Capital expenditure	24,520	66,914	37,824	76,702	99,836	99,836	99,836	73,594	88,323	91,135
Transfers recognised - capital	12,820	28,295	33,673	40,971	45,425	45,425	45,425	41,393	41,789	47,695
Public contributions & donations	11,701	–	–	–	–	–	–	–	–	–
Borrowing	–	–	–	–	–	–	–	–	–	–
Internally generated funds	–	38,619	4,151	35,731	54,411	54,411	54,411	32,200	46,534	43,440
Total sources of capital funds	24,520	66,914	37,824	76,702	99,836	99,836	99,836	73,593	88,323	91,135
<u>Financial position</u>										
Total current assets	329,665	230,308	250,685	162,123	224,461	224,461	224,461	211,328	218,015	223,715
Total non current assets	842,831	836,306	1,263,749	1,119,529	1,412,776	1,412,776	1,412,776	1,485,370	1,560,970	1,588,970
Total current liabilities	69,411	84,361	79,292	112,904	110,597	110,597	110,597	107,416	107,416	107,416
Total non current liabilities	71,777	73,356	70,068	5,334	5,334	5,334	5,334	4,930	4,930	4,930
Community wealth/Equity	1,031,308	908,899	1,365,074	1,163,414	1,521,306	1,521,306	1,521,306	1,584,352	1,666,638	1,700,339
<u>Cash flows</u>										
Net cash from (used) operating	155,841	16,375	103,521	67,671	63,670	63,670	63,670	13,899	74,828	28,776
Net cash from (used) investing	(49,473)	(66,726)	(21,968)	(40,971)	(45,425)	(45,425)	(45,425)	(40,393)	(75,600)	(28,000)
Net cash from (used) financing	25,399	(1,386)	(2,008)	(1,036)	(1,036)	(1,036)	(1,036)	–	–	–
Cash/cash equivalents at the year end	391,016	77,227	208,509	196,875	188,420	188,420	188,420	132,247	131,475	132,251
<u>Cash backing/surplus reconciliation</u>										
Cash and investments available	170,802	129,268	184,147	97,211	160,658	160,658	160,658	165,138	171,824	177,525
Application of cash and investments	(113,505)	(24,753)	(18,129)	(24,616)	(15,957)	(15,957)	(15,957)	5,144	5,214	5,400
Balance - surplus (shortfall)	284,308	154,021	202,276	121,827	176,615	176,615	176,615	159,994	166,611	172,125
<u>Asset management</u>										
Asset register summary (WDV)	842,831	836,002	1,259,177	1,119,529	1,412,776	1,412,776	1,485,370	1,485,370	1,560,970	1,588,970
Depreciation & asset impairment	24,272	–	43,657	26,652	26,652	26,652	28,659	28,659	31,515	34,392
Renewal of Existing Assets	–	30,633	–	20,000	19,393	19,393	19,393	17,000	7,800	12,000
Repairs and Maintenance	14,172	–	11,569	14,813	17,397	17,397	21,287	21,287	23,935	24,794
<u>Free services</u>										
Cost of Free Basic Services provided	–	–	–	–	–	–	–	–	–	–
Revenue cost of free services provided	4,005	4,123	4,123	4,023	4,023	4,023	4,023	4,023	4,023	4,023
<u>Households below minimum service level</u>										
Water:	–	–	–	–	–	–	–	–	–	–
Sanitation/sewage:	–	–	–	–	–	–	–	–	–	–
Energy:	52	53	57	22	22	22	24	24	24	24
Refuse:	8	8	8	9	9	9	8	8	8	8

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand	1									
Revenue - Standard										
<i>Governance and administration</i>		198,462	190,552	202,104	280,482	313,837	313,837	304,537	297,549	308,802
Executive and council		92,956	97,453	102,750	103,545	106,570	106,570	99,872	90,692	96,382
Budget and treasury office		104,704	92,731	91,755	174,990	204,734	204,734	202,596	204,788	210,351
Corporate services		802	368	7,600	1,947	2,532	2,532	2,069	2,069	2,069
<i>Community and public safety</i>		17,978	17,419	30,008	29,086	31,596	31,596	31,869	41,372	40,865
Community and social services		7,210	7,827	7,803	15,124	17,431	17,431	16,791	8,638	19,643
Sport and recreation		404	89	149	3,809	3,866	3,866	4,224	21,798	10,224
Public safety		10,364	9,503	22,056	10,154	10,299	10,299	10,854	10,935	10,998
Housing		-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-
<i>Economic and environmental services</i>		34,386	30,867	42,150	42,581	39,016	39,016	37,398	46,537	54,385
Planning and development		2,365	2,485	3,154	4,421	7,352	7,352	4,421	4,421	4,421
Road transport		32,021	28,383	38,995	38,161	31,664	31,664	32,977	42,117	49,964
Environmental protection		-	-	-	-	-	-	-	-	-
<i>Trading services</i>		311,382	322,538	218,441	285,352	297,753	297,753	308,369	341,472	361,437
Electricity		151,459	168,647	181,969	238,241	241,579	241,579	258,892	287,737	303,548
Water		47,607	88,921	-	-	-	-	-	-	-
Waste water management		78,123	27,200	-	-	-	-	-	-	-
Waste management		34,193	37,771	36,472	47,111	56,173	56,173	49,477	53,734	57,889
<i>Other</i>	4	3	3	3	3	3	3	3	3	3
Total Revenue - Standard	2	562,211	561,379	492,706	637,505	682,204	682,204	682,176	726,932	765,492
Expenditure - Standard										
<i>Governance and administration</i>		84,445	86,811	105,912	135,747	154,233	154,233	158,341	161,679	170,239
Executive and council		37,687	40,105	47,627	63,453	64,711	64,711	65,848	66,762	69,326
Budget and treasury office		30,712	19,940	27,044	46,634	62,650	62,650	67,146	68,614	71,892
Corporate services		16,047	26,766	31,241	25,660	26,872	26,872	25,347	26,304	29,021
<i>Community and public safety</i>		43,922	42,502	52,639	65,119	66,558	66,558	72,563	77,445	82,248
Community and social services		12,538	8,445	22,486	14,813	14,772	14,772	14,992	15,854	16,773
Sport and recreation		7,655	9,289	10,206	14,283	14,540	14,540	22,664	24,143	25,681
Public safety		23,729	24,768	19,947	36,023	37,246	37,246	34,906	37,448	39,794
Housing		-	-	-	-	-	-	-	-	-
Health		-	-	-	-	-	-	-	-	-
<i>Economic and environmental services</i>		46,394	30,643	71,564	53,571	53,515	53,515	56,155	60,933	63,539
Planning and development		9,027	7,692	8,905	21,797	19,899	19,899	21,051	22,055	23,072
Road transport		37,367	22,950	62,659	31,773	33,615	33,615	35,104	38,878	40,468
Environmental protection		-	-	-	-	-	-	-	-	-
<i>Trading services</i>		293,206	272,549	211,684	306,220	307,914	307,914	321,363	338,387	358,158
Electricity		182,136	151,945	193,650	265,486	261,055	261,055	280,497	292,864	309,648
Water		59,641	79,692	-	-	-	-	-	-	-
Waste water management		18,129	4,149	-	-	-	-	-	-	-
Waste management		33,300	36,763	18,034	40,734	46,859	46,859	40,865	45,524	48,510
<i>Other</i>	4	91	100	101	146	149	149	162	165	173
Total Expenditure - Standard	3	468,058	432,605	441,899	560,802	582,369	582,369	608,583	638,609	674,357
Surplus/(Deficit) for the year		94,153	128,774	50,807	76,702	99,835	99,835	73,593	88,323	91,135

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

2013/14 Lushanji Table A5 Budgeted Financial Performance (Revenue and Expenditure by Municipal Vote)										
Vote Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Revenue by Vote	1									
Vote 1- Executive and council		92,956	97,453	102,750	101,618	101,993	101,993	93,072	89,477	94,382
Vote 2 - FINANCE AND ADMINISTRATION		105,494	93,099	99,355	176,937	207,267	207,267	204,665	206,856	212,420
Vote 3 - PLANNING AND DEVELOPMENT		2,365	2,485	3,154	4,421	7,352	7,352	4,421	4,421	4,421
Vote 4 - HEALTH		-	-	-	-	-	-	-	-	-
Vote 5 - COMMUNITY AND SOCIAL SERVICES		7,210	7,827	7,951	15,124	17,431	17,431	16,791	8,638	19,643
Vote 6 - COMMUNITY SAFETY		10,357	9,503	22,056	10,154	10,299	10,299	10,854	10,935	10,998
Vote 7 - SPORT AND RECREATION		404	89	-	3,809	3,866	3,866	4,224	21,798	10,224
Vote 8 - WASTE WATER MANAGEMENT		78,141	27,200	-	-	-	-	-	-	-
Vote 9 - WASTE MANAGEMENT		34,193	37,771	36,472	47,111	56,173	56,173	49,477	53,734	57,889
Vote 10 - ROADS TRANSPORT		32,021	28,382	38,995	38,161	31,664	31,664	32,977	42,117	49,964
Vote 11 - WATER		47,607	88,921	-	-	-	-	-	-	-
Vote 12 - ELECTRICTY		151,459	168,647	181,969	238,241	241,579	241,579	258,892	287,737	303,548
Vote 13 - OTHER	3	3	3	3	3	3	3	3	3	3
Vote 14 - HOUSING		-	-	-	-	-	-	-	-	-
Vote 15 - IPED		-	-	-	1,926	4,577	4,577	6,800	1,215	2,000
Total Revenue by Vote	2	562,211	561,379	492,706	637,505	682,204	682,204	682,176	726,932	765,492
Expenditure by Vote to be appropriated	1									
Vote 1- Executive and council		37,687	40,105	47,627	55,913	59,607	59,607	60,331	61,012	63,376
Vote 2 - FINANCE AND ADMINISTRATION		46,759	46,706	58,285	72,294	89,522	89,522	92,493	94,918	100,913
Vote 3 - PLANNING AND DEVELOPMENT		9,027	7,692	8,905	22,325	19,899	19,899	21,051	22,055	23,072
Vote 4 - HEALTH		-	-	-	-	-	-	-	-	-
Vote 5 - COMMUNITY AND SOCIAL SERVICES		12,538	8,445	22,486	14,813	14,772	14,772	14,992	15,854	16,773
Vote 6 - COMMUNITY SAFETY		23,729	24,768	19,947	36,023	37,246	37,246	34,906	37,448	39,794
Vote 7 - SPORT AND RECREATION		7,655	9,289	10,206	13,756	14,540	14,540	22,664	24,143	25,681
Vote 8 - WASTE WATER MANAGEMENT		18,129	4,149	-	-	-	-	-	-	-
Vote 9 - WASTE MANAGEMENT		33,300	36,763	18,438	40,734	46,859	46,859	40,865	45,524	48,510
Vote 10 - ROADS TRANSPORT		37,367	22,950	62,658	31,773	33,615	33,615	35,104	38,878	40,468
Vote 11 - WATER		59,641	79,692	-	-	-	-	-	-	-
Vote 12 - ELECTRICTY		182,137	151,945	193,246	265,486	261,055	261,055	280,497	292,864	309,648
Vote 13 - OTHER		91	100	101	146	149	149	162	165	173
Vote 14 - HOUSING		-	-	-	-	-	-	-	-	-
Vote 15 - IPED		-	-	-	7,540	5,104	5,104	5,517	5,749	5,950
Total Expenditure by Vote	2	468,058	432,605	441,899	560,802	582,369	582,369	608,583	638,609	674,357
Surplus/(Deficit) for the year	2	94,153	128,774	50,807	76,702	99,835	99,835	73,593	88,323	91,135

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description		Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	1		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Revenue By Source												
Property rates	2		62,700	74,215	66,069	80,147	80,147	80,147	80,147	84,955	91,752	96,339
Property rates - penalties & collection charges												
Service charges - electricity revenue	2		145,365	160,460	174,087	202,832	202,832	202,832	202,832	221,828	245,391	265,010
Service charges - water revenue	2		28,645	35,575	—	—	—	—	—	—	—	—
Service charges - sanitation revenue	2		20,284	22,703	—	—	—	—	—	—	—	—
Service charges - refuse revenue	2		28,181	31,514	33,943	33,002	33,002	33,002	33,002	35,638	39,196	42,328
Service charges - other					(7,166)	—	—	—	—			
Rental of facilities and equipment			2,491	2,440	2,761	2,476	2,476	2,476	2,476	2,628	2,628	2,628
Interest earned - external investments			8,326	7,364	8,837	5,650	9,583	9,583	9,583	9,726	9,726	9,726
Interest earned - outstanding debtors			19,436	26,567	18,402	8,681	25,088	25,088	25,088	28,481	31,038	33,345
Dividends received			—	—	—	—	—	—	—	—	—	—
Fines			383	184	193	348	248	248	248	348	348	348
Licences and permits		8	4,116	3,844	3,971	3,616	3,616	3,616	3,616	3,971	3,971	3,971
Agency services			8,060	37,677	4,012	4,612	4,612	4,612	4,612	4,712	4,712	4,712
Transfers recognised - operational			159,975	128,605	129,658	130,819	131,904	131,904	131,904	119,888	117,874	123,757
Other revenue	2		8,905	10	—	88,865	88,865	88,865	88,865	96,408	91,973	92,193
Gains on disposal of PPE			520	10	11,037							
Total Revenue (excluding capital transfers and contributions)			493,280	531,440	441,665	560,802	582,372	582,372	582,372	608,583	638,609	674,357
Expenditure By Type												
Employee related costs	2		104,900	141,626	148,721	172,984	162,483	162,483	162,483	165,368	173,499	184,517
Remuneration of councillors			18,065	22,112	20,506	21,536	22,354	22,354	22,354	23,545	24,888	26,281
Debt impairment	3		76,104	—	4,473	57,973	74,982	74,982	74,982	71,873	77,915	84,171
Depreciation & asset impairment	2		24,272	—	43,657	26,652	26,652	26,652	26,652	28,659	31,515	34,392
Finance charges			6,397	302	560	57	1,094	1,094	1,094	—	—	—
Bulk purchases	2		145,054	137,683	164,019	188,770	188,770	188,770	188,770	211,800	219,624	230,184
Other materials	8		—	—	—	—	—	—	—	—	—	—
Contracted services			3,113	4,997	5,849	5,159	5,959	5,959	5,959	5,965	6,263	6,346
Transfers and grants			1,660	5,978	—	7,464	8,549	8,549	8,549	6,680	6,986	6,734
Other expenditure	4, 5		88,494	119,907	39,132	80,207	91,527	91,527	91,527	94,693	97,920	101,733
Loss on disposal of PPE					14,982							
Total Expenditure			468,058	432,605	441,899	560,802	582,369	582,369	582,369	608,583	638,609	674,357
Surplus/(Deficit)												
Transfers recognised - capital	6		25,222	98,835	(234)	(0)	3	3	3	0	(0)	0
Contributions recognised - capital			43,692	29,939	37,147	40,971	45,422	45,422	45,422	41,393	41,789	47,695
Contributed assets			—	—	—	—	—	—	—	—	—	—
			25,239		13,894	35,731	54,410	54,410	54,410	32,200	46,534	43,440
Surplus/(Deficit) after capital transfers & contributions			94,153	128,774	50,807	76,702	99,835	99,835	99,835	73,593	88,323	91,135
Taxation												
Surplus/(Deficit) after taxation			94,153	128,774	50,807	76,702	99,835	99,835	99,835	73,593	88,323	91,135
Attributable to minorities												
Surplus/(Deficit) attributable to municipality			94,153	128,774	50,807	76,702	99,835	99,835	99,835	73,593	88,323	91,135
Share of surplus/ (deficit) of associate												
Surplus/(Deficit) for the year			94,153	128,774	50,807	76,702	99,835	99,835	99,835	73,593	88,323	91,135

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand	1										
Capital expenditure - Vote											
Multi-year expenditure, to be appropriated	2										
Vote 1- Executive and council		24	93	–	–	–	–	–	1,000	–	–
Vote 2 - FINANCE AND ADMINISTRATION		11,541	2,701	–	–	–	–	–	2,020	1,778	1,879
Vote 3 - PLANNING AND DEVELOPMENT		442	1,067	–	–	2,221	2,221	–	–	–	–
Vote 4 - HEALTH		–	–	–	–	–	–	–	–	–	–
Vote 5 - COMMUNITY AND SOCIAL SERVICES		958	9,919	9,074	9,430	11,628	11,628	–	11,073	2,500	13,500
Vote 6 - COMMUNITY SAFETY		644	–	–	–	–	–	–	–	–	–
Vote 7 - SPORT AND RECREATION		–	6,616	8,920	3,592	3,592	3,592	–	4,000	21,574	10,000
Vote 8 - WASTE WATER MANAGEMENT		–	–	–	–	–	–	–	–	–	–
Vote 9 - WASTE MANAGEMENT		–	128	89	4,200	6,200	6,200	–	–	–	–
Vote 10 - ROADS TRANSPORT		7,633	43,780	13,869	31,500	22,593	22,593	–	26,700	35,500	43,195
Vote 11 - WATER		–	–	–	–	–	–	–	–	–	–
Vote 12 - ELECTRICITY		2,945	2,610	5,851	19,000	12,334	12,334	–	21,000	25,755	20,561
Vote 13 - OTHER		–	–	–	–	–	–	–	–	–	–
Vote 14 - HOUSING		333	–	–	–	–	–	–	–	–	–
Vote 15 - IPED		–	–	20	1,000	1,000	1,000	–	6,800	1,215	2,000
Capital multi-year expenditure sub-total	7	24,520	66,914	37,824	68,722	59,568	59,568	–	72,593	88,323	91,135
Single-year expenditure, to be appropriated	2										
Vote 1- Executive and council		–	–	–	–	–	–	–	1,000	–	–
Vote 2 - FINANCE AND ADMINISTRATION		–	–	–	2,500	18,187	18,187	–	–	–	–
Vote 3 - PLANNING AND DEVELOPMENT		–	–	–	–	–	–	–	–	–	–
Vote 4 - HEALTH		–	–	–	–	–	–	–	–	–	–
Vote 5 - COMMUNITY AND SOCIAL SERVICES		–	–	–	–	110	110	–	–	–	–
Vote 6 - COMMUNITY SAFETY		–	–	–	–	–	–	–	–	–	–
Vote 7 - SPORT AND RECREATION		–	–	–	–	60	60	–	–	–	–
Vote 8 - WASTE WATER MANAGEMENT		–	–	–	–	–	–	–	–	–	–
Vote 9 - WASTE MANAGEMENT		–	–	–	612	612	612	–	–	–	–
Vote 10 - ROADS TRANSPORT		–	–	–	383	2,794	2,794	–	–	–	–
Vote 11 - WATER		–	–	–	–	–	–	–	–	–	–
Vote 12 - ELECTRICITY		–	–	–	3,668	15,037	15,037	–	–	–	–
Vote 13 - OTHER		–	–	–	–	–	–	–	–	–	–
Vote 14 - HOUSING		–	–	–	–	–	–	–	–	–	–
Vote 15 - IPED		–	–	–	816	3,467	3,467	–	–	–	–
Capital single-year expenditure sub-total		–	–	–	7,980	40,267	40,267	–	1,000	–	–
Total Capital Expenditure - Vote		24,520	66,914	37,824	76,702	99,835	99,835	–	73,593	88,323	91,135
Capital Expenditure - Standard											
Governance and administration		11,565	2,794	1	4,316	21,157	21,157	21,157	10,820	2,994	3,879
Executive and council		24	93	1	1,816	4,285	4,285	4,285	7,800	1,215	2,000
Budget and treasury office		11,540	2,701	–	2,500	16,287	16,287	16,287	3,020	1,778	1,879
Corporate services		2	–	–	–	585	585	585	–	–	–
Community and public safety		1,936	16,535	17,994	17,222	17,056	17,056	17,056	15,074	24,074	23,500
Community and social services		958	9,919	9,074	13,630	13,404	13,404	13,404	11,074	2,500	13,500
Sport and recreation		–	6,616	8,920	3,592	3,652	3,652	3,652	4,000	21,574	10,000
Public safety		644	–	–	–	–	–	–	–	–	–
Housing		333	–	–	–	–	–	–	–	–	–
Health		–	–	–	–	–	–	–	–	–	–
Economic and environmental services		8,075	44,848	13,889	31,883	25,594	25,594	25,594	26,700	35,500	43,195
Planning and development		442	1,067	20	–	1,500	1,500	1,500	–	–	–
Road transport		7,633	43,780	13,869	31,883	24,094	24,094	24,094	26,700	35,500	43,195
Environmental protection		–	–	–	–	–	–	–	–	–	–
Trading services		2,945	2,738	5,941	23,280	36,028	36,028	36,028	21,000	25,755	20,561
Electricity		2,945	2,610	5,851	22,668	29,216	29,216	29,216	21,000	25,755	20,561
Water		–	–	–	–	–	–	–	–	–	–
Waste water management		–	–	–	–	–	–	–	–	–	–
Waste management		–	128	89	612	6,812	6,812	6,812	–	–	–
Other		–	–	–	–	–	–	–	–	–	–
Total Capital Expenditure - Standard	3	24,520	66,914	37,824	76,702	99,836	99,836	99,836	73,594	88,323	91,135
Funded by:											
National Government		12,820	28,295	33,673	40,971	45,425	45,425	45,425	41,393	41,789	47,695
Provincial Government		–	–	–	–	–	–	–	–	–	–
District Municipality		–	–	–	–	–	–	–	–	–	–
Other transfers and grants		–	–	–	–	–	–	–	–	–	–
Transfers recognised - capital	4	12,820	28,295	33,673	40,971	45,425	45,425	45,425	41,393	41,789	47,695
Public contributions & donations	5	11,701	–	–	–	–	–	–	–	–	–
Borrowing	6	–	–	–	–	–	–	–	–	–	–
Internally generated funds	6	–	38,619	4,151	35,731	54,411	54,411	54,411	32,200	46,534	43,440
Total Capital Funding	7	24,520	66,914	37,824	76,702	99,836	99,836	99,836	73,593	88,323	91,135

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Table A6 Budgeted Financial Position

C/134 Euknary - Table A6 Budgeted Financial Position											
Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand											
ASSETS											
Current assets											
Cash		62,394	15,425	57,114	56,879	32,618	32,618	32,618	29,315	29,315	29,315
Call investment deposits	1	108,408	113,539	126,721	40,332	128,041	128,041	128,041	135,823	142,509	148,210
Consumer debtors	1	97,623	74,050	24,410	36,254	42,300	42,300	42,300	19,650	19,650	19,650
Other debtors		61,164	27,287	42,440	28,657	21,502	21,502	21,502	26,540	26,540	26,540
Current portion of long-term receivables											
Inventory	2	76	7								
Total current assets		329,665	230,308	250,685	162,123	224,461	224,461	224,461	211,328	218,015	223,715
Non current assets											
Long-term receivables				3,211							
Investments			305	312							
Investment property		91,284	153,473	310,562	153,473	270,113	270,113	270,113	270,113	270,113	270,113
Investment in Associate											
Property, plant and equipment	3	751,548	682,528	946,023	966,056	1,142,663	1,142,663	1,142,663	1,215,257	1,290,857	1,318,857
Agricultural											
Biological				2,592							
Intangible											
Other non-current assets				1,049							
Total non current assets		842,831	836,306	1,263,749	1,119,529	1,412,776	1,412,776	1,412,776	1,485,370	1,560,970	1,588,970
TOTAL ASSETS		1,172,496	1,066,615	1,514,434	1,281,652	1,637,237	1,637,237	1,637,237	1,696,698	1,778,984	1,812,685
LIABILITIES											
Current liabilities											
Bank overdraft	1		-	-							
Borrowing	4	2,466	1,395	148	1,094	1,094	1,094	1,094	-	-	-
Consumer deposits		8,682	8,922	9,231	178	9,591	9,591	9,591	7,865	7,865	7,865
Trade and other payables	4	51,959	71,933	52,802	31,178	33,656	33,656	33,656	40,801	40,801	40,801
Provisions		6,305	2,110	17,112	80,454	66,255	66,255	66,255	58,750	58,750	58,750
Total current liabilities		69,411	84,361	79,292	112,904	110,597	110,597	110,597	107,416	107,416	107,416
Non current liabilities											
Borrowing		3,283	1,145	1,628	1,094	1,094	1,094	1,094	-	-	-
Provisions		68,494	72,210	68,441	4,241	4,241	4,241	4,241	4,930	4,930	4,930
Total non current liabilities		71,777	73,356	70,068	5,334	5,334	5,334	5,334	4,930	4,930	4,930
TOTAL LIABILITIES		141,188	157,716	149,361	118,238	115,931	115,931	115,931	112,346	112,346	112,346
NET ASSETS	5	1,031,308	908,899	1,365,074	1,163,414	1,521,306	1,521,306	1,521,306	1,584,352	1,666,638	1,700,339
COMMUNITY WEALTH/EQUITY											
Accumulated Surplus/(Deficit)		1,031,308	908,899	1,365,074	1,163,414	1,521,306	1,521,306	1,521,306	1,584,352	1,666,638	1,700,339
Reserves	4	-	-	-	-	-	-	-	-	-	-
TOTAL COMMUNITY WEALTH/EQUITY	5	1,031,308	908,899	1,365,074	1,163,414	1,521,306	1,521,306	1,521,306	1,584,352	1,666,638	1,700,339

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Table A7 Budgeted Cash Flows

EC134 Lukhanyo - Table A1 Budgeted Cash Flows									2016/17 Medium Term Revenue & Expenditure Framework		
Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				Budget Year	Budget Year	Budget Year
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	2016/17	+1 2017/18	+2 2018/19
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates, penalties & collection charges		62,700	74,215	66,069	75,403	50,401	50,401	50,401	58,439	63,114	65,582
Service charges		222,476	248,240	200,864	189,653	192,346	192,346	192,346	203,243	226,958	245,103
Other revenue		52,926	54,854	28,825	99,672	100,087	100,087	100,087	108,067	103,632	103,852
Government - operating	1	119,868	123,237	127,727	130,819	131,904	131,904	131,904	119,888	117,874	123,757
Government - capital	1	26,000	33,778	39,078	40,971	45,425	45,425	45,425	41,393	75,600	28,000
Interest		27,763	34,624	27,239	7,330	12,322	12,322	12,322	12,207	40,764	43,071
Dividends		-	-	-	-	-	-	-	-	-	-
Payments											
Suppliers and employees		(353,187)	(533,418)	(377,745)	(468,656)	(460,209)	(460,209)	(460,209)	(522,658)	(546,129)	(573,854)
Finance charges		(1,044)	(5,307)	(403)	(57)	(57)	(57)	(57)	-	-	-
Transfers and Grants	1	(1,660)	(13,848)	(8,134)	(7,464)	(8,549)	(8,549)	(8,549)	(6,680)	(6,986)	(6,734)
NET CASH FROM/(USED) OPERATING ACTIVITIES		155,841	16,375	103,521	67,671	63,670	63,670	63,670	13,899	74,828	28,776
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		520							32,200	-	-
Decrease (Increase) in non-current debtors		(227)							-	-	-
Decrease (increase) other non-current receivables		(72)							-	-	-
Decrease (increase) in non-current investments					35,731	53,065	53,065	53,065	-	-	-
Payments											
Capital assets		(49,694)	(66,726)	(21,968)	(76,702)	(98,490)	(98,490)	(98,490)	(72,593)	(75,600)	(28,000)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(49,473)	(66,726)	(21,968)	(40,971)	(45,425)	(45,425)	(45,425)	(40,393)	(75,600)	(28,000)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans									-	-	-
Borrowing long term/refinancing		35,275							-	-	-
Increase (decrease) in consumer deposits		8,682							-	-	-
Payments											
Repayment of borrowing		(18,557)	(1,386)	(2,008)	(1,036)	(1,036)	(1,036)	(1,036)	-	-	-
NET CASH FROM/(USED) FINANCING ACTIVITIES		25,399	(1,386)	(2,008)	(1,036)	(1,036)	(1,036)	(1,036)	-	-	-
NET INCREASE/ (DECREASE) IN CASH HELD		131,767	(51,737)	79,545	25,664	17,209	17,209	17,209	(26,494)	(772)	776
Cash/cash equivalents at the year begin:	2	259,249	128,964	128,964	171,211	171,211	171,211	171,211	158,741	132,247	131,475
Cash/cash equivalents at the year end:	2	391,016	77,227	208,509	196,875	188,420	188,420	188,420	132,247	131,475	132,251

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Table A8 Cash backed reserves/accumulated surplus reconciliation

CG34 Summary - Table A6 Cash backed reserves/accumulated surplus recommitment												
Description		Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Cash and investments available												
Cash/cash equivalents at the year end		1	391,016	77,227	208,509	196,875	188,420	188,420	188,420	132,247	131,475	132,251
Other current investments > 90 days			(220,214)	51,737	(24,674)	(99,664)	(27,761)	(27,761)	(27,761)	32,891	40,349	45,274
Non current assets - Investments		1	—	305	312	—	—	—	—	—	—	—
Cash and investments available:			170,802	129,268	184,147	97,211	160,658	160,658	160,658	165,138	171,824	177,525
Application of cash and investments												
Unspent conditional transfers			19,168	9,394	14,561	9,394	6,225	6,225	6,225	3,950	3,950	3,950
Unspent borrowing			—	—	—	—	—	—	—	—	—	—
Statutory requirements		2										
Other working capital requirements		3	(132,674)	(34,147)	(32,690)	(34,010)	(22,182)	(22,182)	(22,182)	1,193	1,263	1,449
Other provisions												
Long term investments committed		4	—	—	—	—	—	—	—	—	—	—
Reserves to be backed by cash/investments		5										
Total Application of cash and investments:			(113,505)	(24,753)	(18,129)	(24,616)	(15,957)	(15,957)	(15,957)	5,144	5,214	5,400
Surplus(shortfall)			284,308	154,021	202,276	121,827	176,615	176,615	176,615	159,994	166,611	172,125

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Table A9 Asset Management

CUTS LUKHAI - Table A2 Asset Management										
Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand										
CAPITAL EXPENDITURE										
<u>Total New Assets</u>	1	24,520	36,281	37,824	56,702	80,442	80,442	56,593	80,523	79,135
Infrastructure - Road transport		7,633	8,069	13,869	11,883	6,993	6,993	9,700	23,500	54,573
Infrastructure - Electricity		2,945	2,610	5,851	22,668	29,216	29,216	21,000	21,723	20,561
Infrastructure - Water		-	-	-	-	-	-	-	-	-
Infrastructure - Sanitation		-	-	-	-	-	-	-	-	-
Infrastructure - Other		442	6,717	110	612	612	612	3,000	-	-
Infrastructure		11,019	17,396	19,830	35,164	36,821	36,821	33,700	45,223	75,135
Community		1,936	16,184	17,994	14,839	21,342	21,342	17,693	35,300	4,000
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6	11,565	2,701	-	6,700	22,279	22,279	5,200	-	-
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		-	-	-	-	-	-	-	-	-
<u>Total Renewal of Existing Assets</u>	2	-	30,633	-	20,000	19,393	19,393	17,000	7,800	12,000
Infrastructure - Road transport		-	30,633	-	20,000	19,393	19,393	17,000	7,800	12,000
Infrastructure - Electricity		-	-	-	-	-	-	-	-	-
Infrastructure - Water		-	-	-	-	-	-	-	-	-
Infrastructure - Sanitation		-	-	-	-	-	-	-	-	-
Infrastructure - Other		-	-	-	-	-	-	-	-	-
Infrastructure		-	30,633	-	20,000	19,393	19,393	17,000	7,800	12,000
Community		-	-	-	-	-	-	-	-	-
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6	-	-	-	-	-	-	-	-	-
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		-	-	-	-	-	-	-	-	-
<u>Total Capital Expenditure</u>	4	7,633	38,702	13,869	31,883	26,385	26,385	26,700	31,300	66,573
Infrastructure - Road transport		2,945	2,610	5,851	22,668	29,216	29,216	21,000	21,723	20,561
Infrastructure - Electricity		-	-	-	-	-	-	-	-	-
Infrastructure - Water		-	-	-	-	-	-	-	-	-
Infrastructure - Sanitation		-	-	-	-	-	-	-	-	-
Infrastructure - Other		442	6,717	110	612	612	612	3,000	-	-
Infrastructure		11,019	48,029	19,830	55,164	56,214	56,214	50,700	53,023	87,135
Community		1,936	16,184	17,994	14,839	21,342	21,342	17,693	35,300	4,000
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6	11,565	2,701	-	6,700	22,279	22,279	5,200	-	-
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		-	-	-	-	-	-	-	-	-
TOTAL CAPITAL EXPENDITURE - Asset class	2	24,520	66,914	37,824	76,702	99,835	99,835	73,593	88,323	91,135
ASSET REGISTER SUMMARY - PPE (WDV)										
Infrastructure - Road transport	5	385,009	373,521	345,438	428,449	605,057	605,057	656,650	723,250	739,250
Infrastructure - Electricity		222,945	232,562	281,510	304,616	304,616	304,616	325,616	334,616	346,616
Infrastructure - Water		-	-	-	-	-	-	-	-	-
Infrastructure - Sanitation		-	-	-	-	-	-	-	-	-
Infrastructure - Other		127,522	52,001	-	10,759	10,759	10,759	10,759	10,759	10,759
Infrastructure		735,476	658,083	626,948	743,824	920,432	920,432	993,025	1,068,625	1,096,625
Community		3,248	-	139,477	174,233	174,233	174,233	174,233	174,233	174,233
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		91,284	153,473	310,562	153,473	270,113	270,113	270,113	270,113	270,113
Other assets		12,824	24,445	179,598	47,999	47,999	47,999	47,999	47,999	47,999
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	2,592	-	-	-	-	-	-
Intangibles		-	-	-	-	-	-	-	-	-
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	5	842,831	836,002	1,259,177	1,119,529	1,412,776	1,412,776	1,485,370	1,560,970	1,588,970
EXPENDITURE OTHER ITEMS										
<u>Depreciation & asset impairment</u>	3	24,272	-	43,657	26,652	26,652	26,652	28,659	31,515	34,392
<u>Repairs and Maintenance by Asset Class</u>		14,172	-	11,569	14,813	17,397	17,397	21,287	23,935	24,794
Infrastructure - Road transport		2,493	-	4,667	4,947	4,947	4,947	6,844	7,181	7,294
Infrastructure - Electricity		1,728	-	2,939	3,116	5,116	5,116	5,357	5,625	5,920
Infrastructure - Water		926	-	-	-	-	-	-	-	-
Infrastructure - Sanitation		3,151	-	-	-	-	-	-	-	-
Infrastructure - Other		-	-	1,686	1,787	1,787	1,787	1,902	3,578	3,677
Infrastructure		8,298	-	9,292	9,849	11,849	11,849	14,103	16,385	16,892
Community		-	-	730	774	774	774	797	1,475	834
Heritage assets		-	-	-	-	815	815	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6, 7	5,875	-	1,547	4,190	3,959	3,959	6,387	6,076	7,068
TOTAL EXPENDITURE OTHER ITEMS		38,444	-	55,226	41,466	44,050	44,050	49,945	55,451	59,186
Renewal of Existing Assets as % of total capex		0.0%	45.8%	0.0%	26.1%	19.4%	19.4%	23.1%	8.8%	13.2%
Renewal of Existing Assets as % of deprecn"		0.0%	0.0%	0.0%	75.0%	72.8%	72.8%	59.3%	24.8%	34.9%
R&M as a % of PPE		1.9%	0.0%	1.2%	1.5%	1.5%	1.5%	1.8%	1.9%	1.9%
Renewal and R&M as a % of PPE		2.0%	4.0%	1.0%	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Table A10 Basic service delivery measurement

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Household service targets	1									
Water:										
Piped water inside dwelling		-	-	-	-	-	-	-	-	-
Piped water inside yard (but not in dwelling)		-	-	-	-	-	-	-	-	-
Using public tap (at least min.service level)	2	-	-	-	-	-	-	-	-	-
Other water supply (at least min.service level)	4	-	-	-	-	-	-	-	-	-
<i>Minimum Service Level and Above sub-total</i>		-	-	-	-	-	-	-	-	-
Using public tap (< min.service level)	3	-	-	-	-	-	-	-	-	-
Other water supply (< min.service level)	4	-	-	-	-	-	-	-	-	-
No water supply		-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>		-	-	-	-	-	-	-	-	-
Total number of households	5	-	-	-	-	-	-	-	-	-
Sanitation/sewerage:										
Flush toilet (connected to sewerage)		-	-	-	-	-	-	-	-	-
Flush toilet (with septic tank)		-	-	-	-	-	-	-	-	-
Chemical toilet		-	-	-	-	-	-	-	-	-
Pit toilet (ventilated)		-	-	-	-	-	-	-	-	-
Other toilet provisions (> min.service level)		-	-	-	-	-	-	-	-	-
<i>Minimum Service Level and Above sub-total</i>		-	-	-	-	-	-	-	-	-
Bucket toilet		-	-	-	-	-	-	-	-	-
Other toilet provisions (< min.service level)		-	-	-	-	-	-	-	-	-
No toilet provisions		-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>		-	-	-	-	-	-	-	-	-
Total number of households	5	-	-	-	-	-	-	-	-	-
Energy:										
Electricity (at least min.service level)		53,300	54,347	54,347	58,344	58,344	58,344	59,222	59,222	59,222
Electricity - prepaid (min.service level)		51,575	53,214	56,647	21,638	21,638	21,638	23,561	23,561	23,561
<i>Minimum Service Level and Above sub-total</i>		104,875	107,561	110,994	79,982	79,982	79,982	82,783	82,783	82,783
Electricity (< min.service level)		-	-	-	-	-	-	-	-	-
Electricity - prepaid (< min. service level)		51,575	53,214	56,647	21,638	21,638	21,638	23,561	23,561	23,561
Other energy sources		-	-	-	-	-	-	-	-	-
<i>Below Minimum Service Level sub-total</i>		51,575	53,214	56,647	21,638	21,638	21,638	23,561	23,561	23,561
Total number of households	5	156,450	160,775	167,641	101,620	101,620	101,620	106,344	106,344	106,344
Refuse:										
Removed at least once a week		27,890	28,939	28,939	28,649	28,649	28,649	28,722	28,722	28,722
<i>Minimum Service Level and Above sub-total</i>		27,890	28,939	28,939	28,649	28,649	28,649	28,722	28,722	28,722
Removed less frequently than once a week		-	-	-	-	-	-	-	-	-
Using communal refuse dump		110	110	110	215	215	215	237	237	237
Using own refuse dump		-	-	-	-	-	-	-	-	-
Other rubbish disposal		4,048	4,048	4,048	4,316	4,316	4,316	3,885	3,885	3,885
No rubbish disposal		4,158	4,158	4,158	4,533	4,533	4,533	3,620	3,620	3,620
<i>Below Minimum Service Level sub-total</i>		8,316	8,316	8,316	9,064	9,064	9,064	7,742	7,742	7,742
Total number of households	5	36,206	37,255	37,255	37,713	37,713	37,713	36,464	36,464	36,464
Households receiving Free Basic Service	7									
Water (6 kilolitres per household per month)		-	-	-	-	-	-	-	-	-
Sanitation (free minimum level service)		-	-	-	-	-	-	-	-	-
Electricity/other energy (50kwh per household per month)		-	-	-	-	-	-	-	-	-
Refuse (removed at least once a week)		-	-	-	-	-	-	-	-	-
Cost of Free Basic Services provided - Formal Settlements (R'000)	8									
Water (6 kilolitres per indigent household per month)		-	-	-	-	-	-	-	-	-
Sanitation (free sanitation service to indigent households)		-	-	-	-	-	-	-	-	-
Electricity/other energy (50kwh per indigent household per month)		-	-	-	-	-	-	-	-	-
Refuse (removed once a week for indigent households)		-	-	-	-	-	-	-	-	-
Cost of Free Basic Services provided - Informal Formal Settlements (R'000)		-	-	-	-	-	-	-	-	-
Total cost of FBS provided		-	-	-	-	-	-	-	-	-
Highest level of free service provided per household										
Property rates (R value threshold)		15,000	15,000	15,000	3,851,659	3,851,659	3,851,659	3,851,659	3,851,659	3,851,659
Water (kilolitres per household per month)		-	-	-	-	-	-	-	-	-
Sanitation (kilolitres per household per month)		-	-	-	-	-	-	-	-	-
Sanitation (Rand per household per month)		-	-	-	-	-	-	-	-	-
Electricity (kwh per household per month)		50	50	50	50	50	50	50	50	50
Refuse (average litres per week)		6	6	6	4	4	4	4	4	4
Revenue cost of subsidised services provided (R'000)	9									
Property rates (tariff adjustment) (impermissible values per section 17 of MPRA)		4,005	4,123	4,123	4,023	4,023	4,023	4,023	4,023	4,023
Property rates exemptions, reductions and rebates and impermissible values in excess of section 17 of MPRA		-	-	-	-	-	-	-	-	-
Water (in excess of 6 kilolitres per indigent household per month)		-	-	-	-	-	-	-	-	-
Sanitation (in excess of free sanitation service to indigent households)		-	-	-	-	-	-	-	-	-
Electricity/other energy (in excess of 50 kwh per indigent household per month)		-	-	-	-	-	-	-	-	-
Refuse (in excess of one removal a week for indigent households)		-	-	-	-	-	-	-	-	-
Municipal Housing - rental rebates		-	-	-	-	-	-	-	-	-
Housing - top structure subsidies		-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-
Total revenue cost of subsidised services provided		4,005	4,123	4,123	4,023	4,023	4,023	4,023	4,023	4,023

Lukhanji Adopted Draft Budget 201617

6 Budget Related Charts and Explanatory Notes

These charts tie with the budget schedules presented above and are presented to illustrate the related numerical schedule.

6.1 - Chart 1 - Operating Revenue by Source

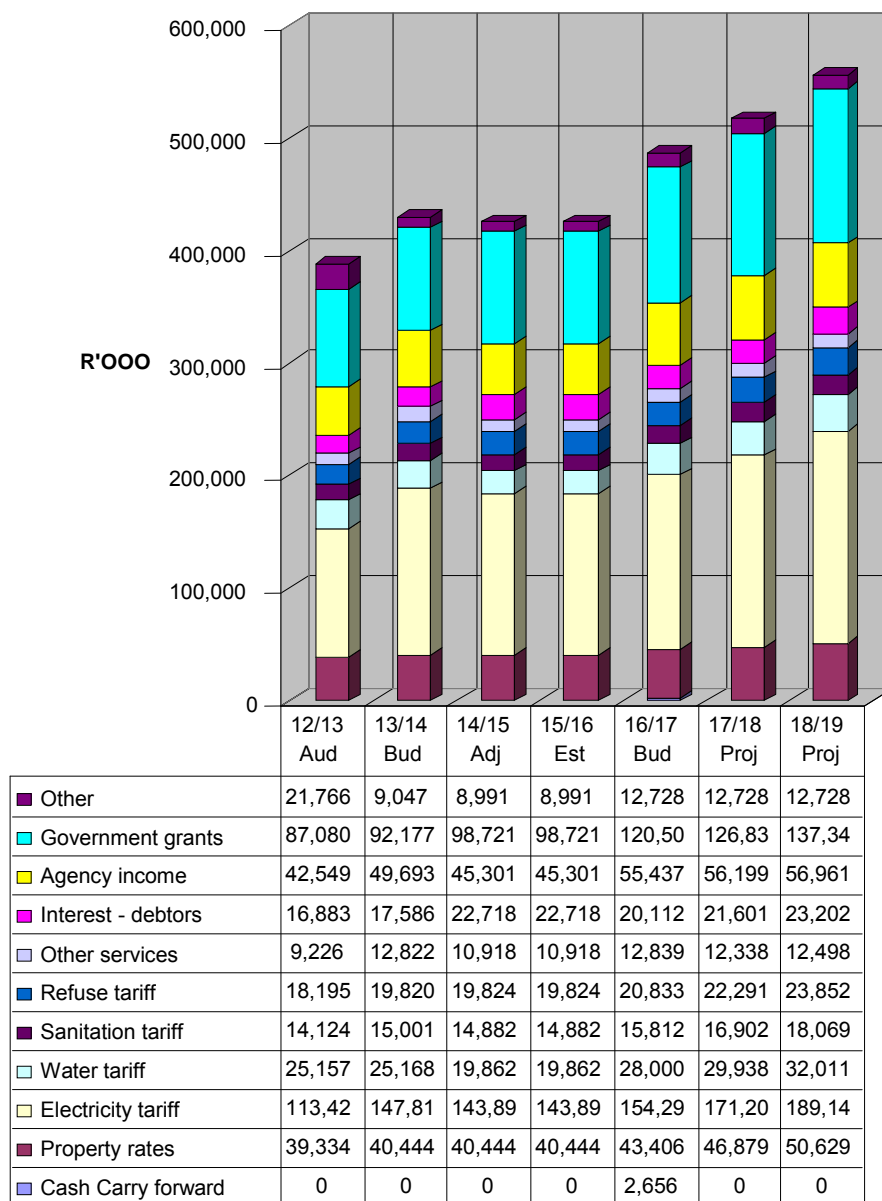
6.2 - Chart 2 - Operating Expenditures by GFS Function (Vote)

6.3 - Chart 3 - Capital Expenditure by Vote

6.6 - Chart 4 - Capital Budget by funding source

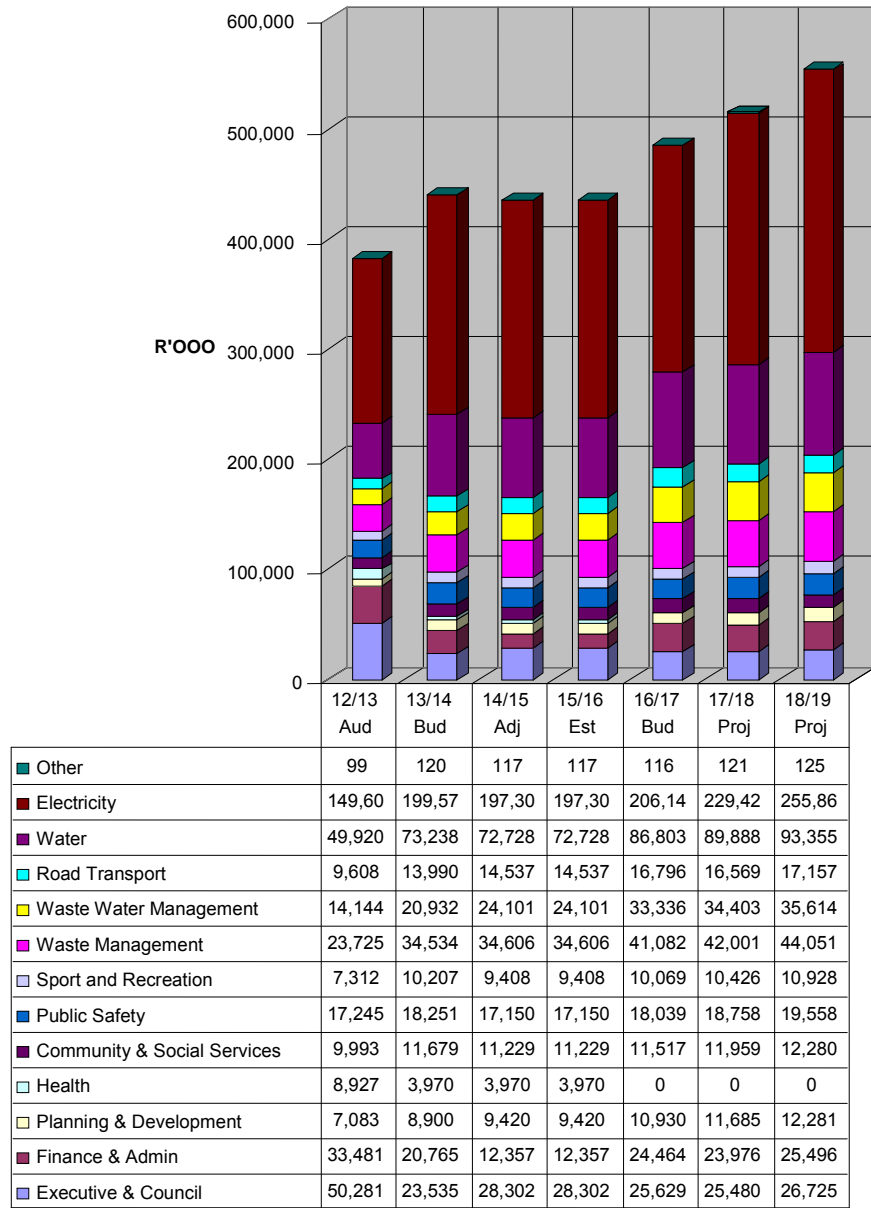
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CHART 1 - OPERATING REVENUE BY SOURCE



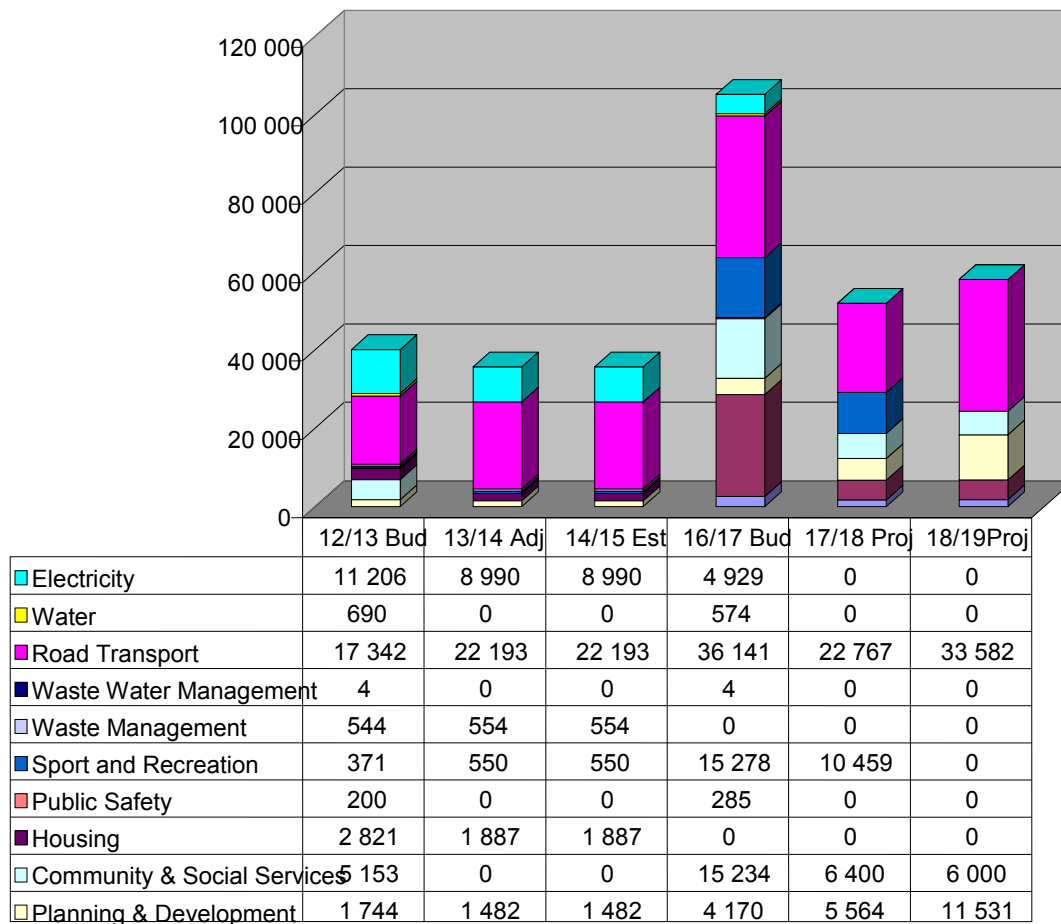
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CHART 2 - OPERATING EXPENDITURE BY GFS FUNCTION



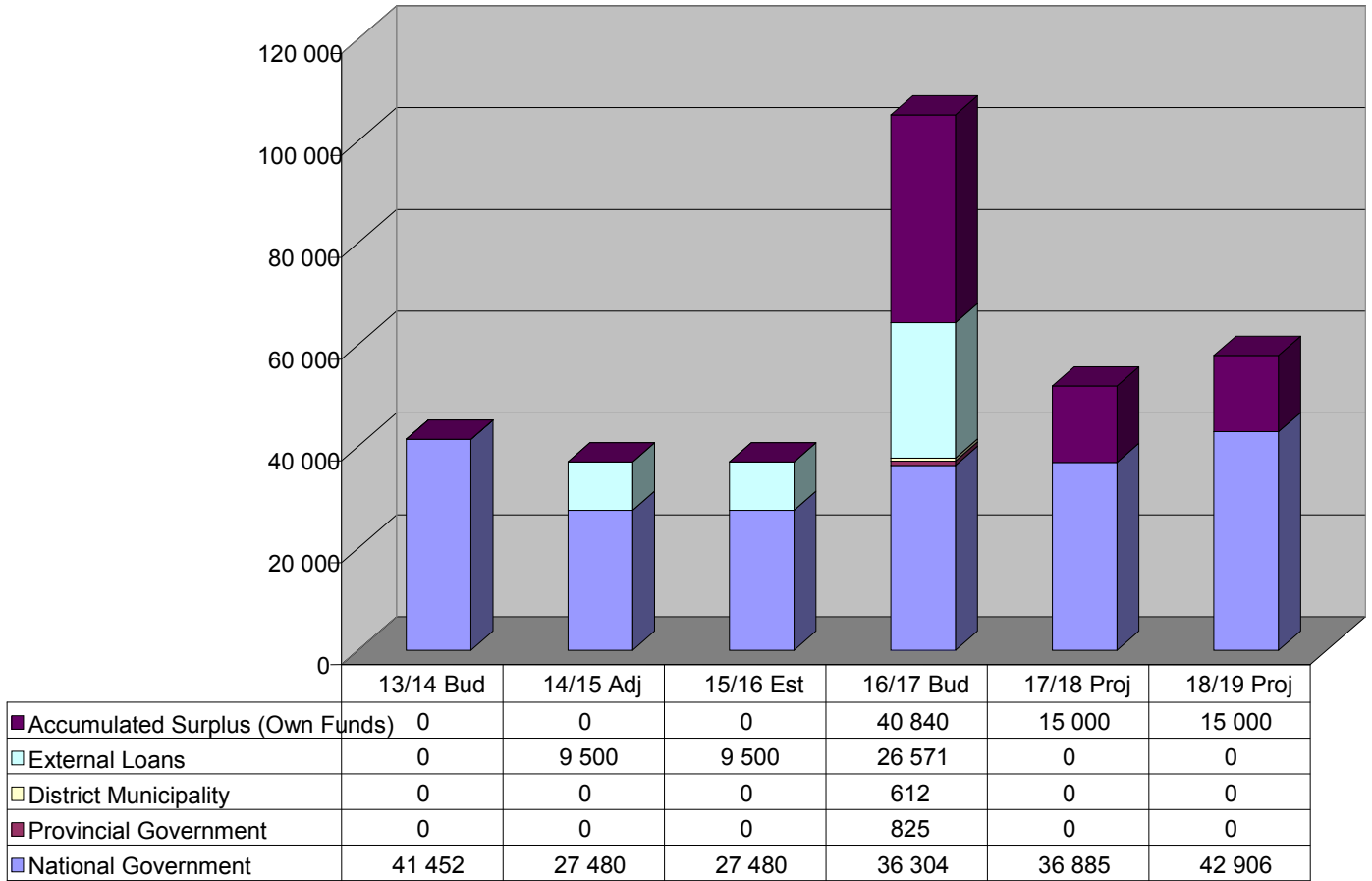
Lukhanji Adopted Draft Budget 201617

CHART 3 - CAPITAL EXPENDITURE BY VOTE



Lukhanji Adopted Draft Budget 201617

CHART 4 - CAPITAL FUNDING BY SOURCE



Lukhanji Adopted Draft Budget 2016/17

Supporting Documentation

Section 17(3) of the MFMA requires certain documents must accompany the budget.

7. Budget Process Overview

The following schedule was adopted by the Council in August 2015 and was followed in the preparation of the 2016/17 medium term budget document.

BUDGET PROCESS PLAN 2016-2019

ACTION		LEGISLATION	DATE	RESPONSIBLE PERSON
JULY 2015				
Review of Rollovers to be included in the 2015/16 Budget	Section 28(2) € A Municipality may authorize the spending of funds that were unspent at the end of the past financial year where under spending could not reasonably have been foreseen at the time to include projected roll overs when an annual budget for the current financial year was approved by the council.		02-31 July 2015	CFO and Manager: Budget and Financial Reporting
Develop draft process and timetable for the 2016/19 Budget	Section 21(1)(b -)At least 10 months before the start of the budget year the mayor of the Municipality must table in the municipal council a time schedule outlining key deadlines for the preparation , tabling and approval of the annual budget ; annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act and the budget related policies ; the tabling and adoption of any amendments to the integrated development plan and the budget related policies and any consultative processes forming part f the processes		31 July 2015	CFO
AUGUST 2015				
IDP, Budget and PMS Technical Committee to discuss Draft process plan & evaluation checklist	Section 21(1);the Mayor of the Municipality must table the annual budget at a Council Meeting at least 90 days before the start of the budget year and Section 28 of the MFMA: Municipal Adjustment Budget		11 August 2015	CFO and Manager : Budget and Financial Reporting
IDP/Budget Steering Committee –to submit process plan			21 August 2015	Portfolio Head Finance
Council adopts Budget process plan			31 August 2015	Executive Mayor
2014/15 Unaudited Financial Statements submitted to Auditor-General	Section 126(1)(a) of the MFMA 56 of 2003 ,the Accounting Officer of a Municipality must prepare the annual financial statements of the Municipality and within two months after the end of the financial year to which those statements relate ,submit the statements to the Auditor General for Auditing		31 August 2015	MM
2014/15 Unaudited Audit Report submitted to Auditor General and tabled before Council	Circular 63 of National Treasury		31 August 2015	MM and Executive Mayor
SEPTEMBER 2015				
IDP/Budget Framework Workshop	Section 21 of the MFMA 56 of 2003:Budget Preparation Process		11 Sept 2015	CFO and Manager Budget and Financial Reporting

Lukhanji Adopted Draft Budget 201617

IDP/Budget Framework Workshop	Section 21 of the MFMA 56 of 2003:Budget Preparation Process	11 Sept 2015	CFO and Manager Budget and Financial Reporting
Submission of Personnel Request Forms		14 -30 Sept 2015	All Directorates
Check with National ,Provincial Government and District Municipality for any adjustments to projected allocations for the next three years	Section 21(2)(d)when preparing the annual budget ,the mayor of a municipality must consult with relevant district Municipality and all other local Municipality within the area and relevant provincial and the National Treasury	30 Sept 2015	CFO and Manager Budget and Financial Reporting
OCTOBER 2015			
HR and Budget collate Personnel Request Forms and analyze results through staff keys book or payroll information	Section 21 of the MFMA 56 of 2003:Budget Preparation Process	01 – 16 Oct 2015	Director Corporate Services, CFO, Manager Budget and Financial Reporting and Manager Expenditure
Analyze results of personnel expenditure and communicate to Directorates		25 - 30 Oct 2015	CFO and Manager Budget and Financial Reporting
Submission of D-Form to NERSA	Section 43 of the MFMA: Applicability of Tax and Tariff capping on Municipalities	30 October 2015	CFO, Director Technical Services, Manager Revenue and Senior Manager Electrical
NOVEMBER 2015			
Submission of Budget Request Forms General Expenses-Capital outlay ,Capital Budget ,Operating Projects and Review of Tariffs	Section 21 of the MFMA 56 of 2003:Budget Preparation Process	02-20 November 2015	All Directorates
Check with National, Provincial Governments and District Municipalities for any information in relation to budget and adjustment budget to projected allocations for the next three years.		02-06 November 2015	Manager Budget and Financial Reporting and CFO
CFO to collate budgets and analyze results		23-27 November 2015	Manager Budget and Financial Reporting and CFO
Discuss Draft audit report from the Auditor-General for the 2014/2015 financial statements		13 November 2015	CFO and MM
Submit process plan for Review of Budget Related Policies	Section 21 of the MFMA 56 of 2003:Budget Preparation Process	30 November 2015	CFO
DECEMBER 2015			
Technical Committee meeting to Review three year capital budget ,Operating projects and Tariffs	Section 21 of the MFMA 56 of 2003:Budget Preparation Process	07 December 2015	All Directorates
Management to compile audit action plan to address issued raised by Auditor General	Section 131(1) of the MFMA, a municipality must address any issues raised by the Auditor General in an Audit Report.	02-04 December 2015	MM and Directors
Steering Committee meeting to Review three year Capital Budget, Operating Projects and Tariffs	Section 21 of the MFMA 56 of 2003:Budget Preparation Process	11 December 2015	Portfolio Head :Finance
JANUARY 2016			
Check with National, Provincial Governments & District Municipalities for any adjustments to projected allocations for the next three years.	Section 21 of the MFMA 56 of 2003:Budget Preparation Process	11-15 Jan 2016	Manager Budget and Financial Reporting and CFO

Lukhanji Adopted Draft Budget 201617

Special Council Meeting – Table in to the Council oversight report, the audit report for 2014/2015, and Mid –year report 2015/2016	Section 72 (1) of the MFMA: The Accounting Officer of a Municipality must by 25 January of each year assess the performance of the Municipality during the first half of the financial year. Circular 63 of National Treasury	25 Jan 2016	Executive Mayor and MPACC Chair
FEBRUARY 2016			
Budget adjustment Consultation Process begins	Section 28 of the MFMA the Municipality May revise an approved annual budget through an adjustment budget	02-05 February 2016	Manager Budget and Financial Reporting and CFO
Submit to National Treasury, Provincial Treasury and the MEC responsible for Local Government the annual report, Annual financial statements, the audit report and any corrective action taken in response to the findings of the audit report relating to 2014/15.	Circular 63 Regulation 20(1) The Municipal Manager must comply with section 24(3) of the Act within 10 working days after the council has approved the annual budget ,The Municipal Manager must submit to National Treasury and relevant provincial Treasury in both electronic and printed form	02-12 February 2016	MM and CFO
IDP, Budget and PMS Technical Committee - To discuss and Finalize the Draft MTREF Budget and 1 st Adjustment Budget	Section 21 of the MFMA 56 of 2003:Budget Preparation Process	16 February 2016	All Directorates
IDP, Budget and PMS Steering Committee - To discuss the and Finalize the Draft MTREF Budget and 1 st Adjustment Budget	Section 21 of the MFMA 56 of 2003:Budget Preparation Process	19 February 2016	Executive Mayor and Municipal Manager
Council to approve 1 st Adjustment Budget	Section 28 of the MFMA the Municipality May revise an approved annual budget though an adjustment budget and read together with Section 72(3) The Accounting Officer must as part of the review make recommendations as to whether an adjustment budget is necessary and recommend revised projection of revenue and expenditure to the extent that this may be necessary	26 February 2016	Executive Mayor and Municipal Manager
MARCH 2016			
2016/2019 First Draft Budget to IDP, Budget and PMS Technical Committee	Section 16(2) Annual Budget: The Mayor of a Municipality must table the annual budget at a council meeting 90 days before the start of the budget year Section 43 of the MFMA	11 March 2016	CFO and Manager Budget and Financial Reporting
2016/2019 First Draft Budget to IDP, Budget and PMS Steering Committee		18 March 2016	Portfolio Head: Finance
Approval of Electricity Tariffs by NERSA		01-31 March 2016	Manager Budget and Financial Reporting ,CFO and Senior Manager Electrical
Council adopts First Draft Budget for 2016/2019		31 March 2016	Executive Mayor
APRIL 2016			
Submit to National Treasury, Provincial Treasury and the MEC responsible for Local Government the draft Budget	Regulation 15(4)a: The Municipal Manager must send copies of the annual budget and	07 April 2016	Manager Budget and CFO

Lukhanji Adopted Draft Budget 2016/17

for 2016/19.	supporting documentation as tabled in the Municipal Council in both printed and electronic form		
Budget advertised for public comments, Public Meetings & Consultation	Section 22(a) after an annual budget is tabled in the municipal Council ,the Accounting Officer must make public the annual budget and documents referred to in section 17(3) and invite the local Community to submit representation in connection with the budget	07 April 2016	Manager Budget and CFO
IDP/Budget road shows	Section 23(1)a when the annual budget has been tabled the Municipal council must consider views of local community	11-29 April 2016	Executive Mayor and All Councilors
	MAY 2016		
2016/2019 Final Draft Budget to IDP, Budget and PMS Technical Committee	Section 24(1) the Municipal Council must at least 30 days before the start of the budget year consider approval of the annual budget	10 May 2016	Manager Budget and Financial Reporting and CFO
2016/2019 Final Draft Budget to IDP, Budget and PMS Steering Committee		18 May 2016	Portfolio Head Finance
Council consider adoption of Final Draft Budget for 2016/2019		30 May 2016	Executive Mayor and Municipal Manager
	JUNE 2016		
MTREF Budget, Budget related policies, annual report published on Council website and newspaper	Section 75(1)(a,b)The Accounting Officer of a Municipality must place on the website referred to in section 21A of the systems Act the following documents: Annual and Adjustment budget and all related policies	10 June 2016	Manager Budget and Financial Reporting and CFO

Lukhanji Adopted Draft Budget 2016/17

Political Oversight

The Budget is a political document. Although most of the technical preparation of the document is performed by staff, the budget is, in accordance with the MFMA, the Mayor's document. The Mayor and the Mayoral committee were involved with the budget at every step.

In July 2015 the mayor appointed a 'Budget' Steering committee to assist in the political oversight of the budget process. This committee met regularly to review each step of the budget's development. It was this committee that made the major political decisions regarding policies, tariffs and funding issues.

Budget Development Overview

The 2016/17 budget process began in July 2015 with the development of a Budget Schedule. This schedule outlined the key steps, milestones and timetables for the budget process. The Budget Steering Committee also reviewed and approved the 'Budget Preparation and Financial Guidelines' that list the assumptions, goals and roles and responsibilities used in preparing the new budget.

In August 2015 the Budget Steering committee approved the budget preparation schedule and tabled that schedule to council.

During the months of September thru January 2015/16 the baseline budget was prepared using the approved guidelines and assumptions. Each directorate was given the opportunity to make changes within their operating budgets. Directorates were also requested to submit capital requests and supplemental operating requests on items such as personnel and new programs.

Concurrent with this process various committees were appointed to review and make recommendations on the municipality's various budget related policies.

At the end of February a first draft budget was prepared using all available data and on the 15th of March 2016 this report was presented to the Budget technical steering Committee.

On the 29th of March 2016 a draft budget was presented to the Mayoral along with a list of recommendations for items such as tariff increases and miscellaneous items.

The draft budget is to be tabled in council on the 31th of March together with the revised IDP for the 2016/17 budget year.

Lukhanji Adopted Draft Budget 2016/17

8. Alignment of Budget with Integrated Development Plan

Each year the IDP must be reviewed as required by the Municipal Systems Act and MFMA. It should be reviewed in terms of performance in achieving outcomes and outputs, since the current financial position and the future fiscal outlook for the municipality will have a direct bearing on delivery. The review should ensure that the plans are still within the financial capacity of Lukhanji. This section should give readers a good understanding of what is contained in the IDP and how that guides the allocations in the budget. The intention is not to attach the IDP as an annexure or to repeat everything in the IDP. However, it is critical that the user of the budget documentation obtains a good high-level overview of the IDP and be referred to the detailed IDP documentation.

Vision

Lukhanji Municipality to be a municipality of choice, that seeks to work closely with its people to promote governance, economic growth and sustainable delivery of services.

Mission

To strive for financial and administrative stability while providing effective, affordable, sustainable integrated development in order to achieve socio economic upliftment, stability and growth.

Value

In addition to the Batho Pele principles, our municipality commits itself to upholding the following set of values:

- Good Governance
- Accountability
- Public Participation
- People Development
- Teamwork
- Integrity
- Tolerance
- Honesty
- Responsibility
- Trust

LUKHANJI KEY PRIORITIES (KPA's) FOR 2012/2017

Priorities as determined by the communities through the ward councilors and endorsed by the IDP Representative Forum

1. Infrastructure and Basic Services

- Roads
- Storm Water Drainage
- Street lighting

Lukhanji Adopted Draft Budget 2016/17

- Sanitation
- 2. Housing
 - Rectification of the RDP houses
- 3. Local Economic Development and job creation
 - Fencing of agricultural and grazing land
 - Tourism
 - SMME development
 - Irrigation schemes
- 4. Social And Recreational Facilities
 - Sports Facilities
 - Fencing facilities
- 5. Health

LUKHANJI DEVELOPMENT TARGETS FOR 2012/2017

GOOD GOVERNANCE + FINACIAL VIABILITY

- To achieve a clean audit by June 2017
- To improve turnaround time for completion of budget: adjustment , DRAFT 16/17 budget
- To improve turn around for dealing with disciplinary cases brought before the DC to less than 60 days from date of initial charges by end 2017.
- To have all our employees signing a pledge to anti-corruption program by end of 2017.
- To develop clear policy for restorative justice processes and renaming

INSTITUTIONAL DEVELOPMENT & TRANSFORMATION

- To revise and automate and cascade performance management
- To adopt a HR retention strategy
- To adopt revised EEP with specific targets for women, youth and disabled in our top three levels of management
- To fill all critical budgeted vacancies in the organogram by June 2017
- To facilitate accredited training of officials and councilors
- To facilitate training and capacity building of all ward committees

LOCAL ECONOMIC DEVELOPMENT

- To improve Agric contribution to economy by between 1% and 2.5%
- To support Local Tourism Agency
- To adopt an Agriculture and Rural development plan
- To pilot Liberation Heritage Route at Sada and Ntabelanga/Bulhoek
- To develop a investment package by the end of 2017

Lukhanji Adopted Draft Budget 201617

SERVICE DELIVERY

- To ensure that 90% of our households have safe places to dispose of their refuse and waste by end 2017
- To facilitate construction of 2000 low cost houses with support from EC department of Housing
- To facilitate supply of electricity to 2%of households by June 2017
- To construct 50km of new gravel road network in our rural areas by December 2017
- To maintain and or upgrade at least 25km of road surface (Tarr + Gravel)
- To facilitate increase household access to water and sanitation services

The tables contained in the following pages attempt to align the draft budget with the IDP.

8.2 – Table SA4 – Reconciliation of IDP strategic objectives and Budget – Revenue

8.3 – Table SA5 – Reconciliation of IDP strategic objectives and Budget Operating Expenditure

8.4 – Table SA6 – Reconciliation of IDP strategic objectives and Budget – Capital Expenditure

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA4 Reconciliation of IDP strategic objectives and budget (revenue)

EC154 Lukhanyo - Supporting Table S44 Reconciliation of IDP Strategic Objectives and Budget (Revenue)													
Strategic Objective	Goal	Goal Code	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework			
R thousand				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19	
Good Governance & Financial Viability	To achieve clean audit by 30 June 2015			178,138	190,211	154,279	274,469	274,469	274,469	274,469	274,469	274,469	
Institutional Development & Transformation	Revise and automate and cascade performance management			2,456	3,521	2,744	13,124	13,124	13,124	14,124	13,124	13,124	
Local Economic Development	Improve agricultural contribution to economy			6,387	1,235	7,136	6,520	6,520	6,520	6,520	6,520	6,520	
Service Delivery	Ensure that 90% of households have safe places to dispose their refuse and waste			324,769	336,473	74,713	47,182	47,182	47,182	47,182	47,182	47,182	
Service Delivery	To facilitate construction of Community Halls					9,256	10,942	10,942	10,942	10,942	10,942	10,942	
Service Delivery	To facilitate supply of electricity to 90% of households by June 2015			50,461		192,585	240,217	240,217	240,217	240,217	240,217	240,217	
Service Delivery	To maintain and upgrade at least 25km of roads each year until 2017					38,099	32,600	32,600	32,600	32,600	45,323	95,735	
Good Governance and Public Participation					29,939	13,894	12,450	12,450	12,450	12,450	12,450	12,450	
								44,700	44,700	43,671	76,705	64,853	
							0						
Allocations to other priorities				2									
Total Revenue (excluding capital transfers and contributions)				1	562,211	561,379	492,706	637,505	682,204	682,204	682,176	726,932	765,492

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA5 Reconciliation of IDP strategic objectives and budget (operating expenditure)

C134 Ekhnamj - Supporting Table C43 Reconciliation of RDR Strategic Objectives and Budget (Operating expenditure)													
Strategic Objective	Goal	Goal Code	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework			
R thousand				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19	
Good Governance & Financial Viability	To achieve clean audit by 30 June 2015			59,001	61,001	57,673	93,262	93,262	93,262	93,610	102,601	102,601	
Institutional Development & Transformation	Revise and automate and cascade performance management			4,502	4,502	5,322	7,422	7,422	7,422	7,422	7,422	7,422	
Local Economic Development	Improve agicultural contribution to economy			21,440	32,445	13,745	19,540	19,540	19,540	19,540	19,540	19,540	
Service Delivery	Ensure that 90% of households have safe places to dispose their refuse and			383,115	334,657	164,031	199,330	220,897	220,897	204,927	229,517	269,517	
Service Delivery	To facilitate construction of Community Halls					3,825	29,633	29,633	29,633	29,633	37,521	37,521	
Service Delivery	To facilitate supply of electricity to 90% of households by June 2015					193,262	207,576	207,576	207,576	207,576	188,573	188,573	
Service Delivery	To maintain and upgrade at least 25km of roads each year until 2017					4,041	4,040	4,040	4,040	45,875	53,435	49,183	
Allocations to other priorities													
Total Expenditure				1	468,058	432,605	441,899	560,803	582,369	582,369	608,583	638,609	674,357

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA6 Reconciliation of IDP strategic objectives and budget (capital expenditure)

Strategic Objective	Goal	Goal Code	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework			
				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19	
R thousand													
Good Governance & Financial Viability	To achieve clean audit by 30 June 2015	A		–	2,701			23,133	23,133	1,000		1,298	
Institutional Development & Transformation	Revise and automate and cascade performance management	B		–	93	1,962	3,500	3,500	3,500	3,500	3,500	3,500	
Local Economic Development	Improve agricultural contribution to economy	C		2,535	–	1,703	1,703	1,703	1,703	1,703	1,703	1,703	
Service Delivery	Ensure that 90% of households have safe places to dispose their refuse and	D		21,986	3,956	5,056	9,256	9,256	9,256	9,256	9,256	2,256	
Service Delivery	To have good access road in the communities	E			43,781	6,551	27,302	27,302	27,302	23,193	38,923	70,437	
Service Delivery	To facilitate construction of Community Halls	F			7,029	8,860	8,860	8,860	8,860	8,860	8,860	3,860	
Service Delivery	To facilitate supply of electricity to 90% of households by June 2015	G			2,610	6,770	15,770	15,770	15,770	15,770	15,770	5,770	
Service Delivery	To construct and upgrade sport facilities in the community	H			6,744	6,920	10,310	10,310	10,310	10,310	10,310	2,310	
Allocations to other priorities				3									
Total Capital Expenditure				1	24,520	66,914	37,824	76,702	99,835	99,835	73,593	88,323	91,135

Lukhanji Adopted Draft Budget 2016/17

9 Budget Related Policies Overview and Amendments

The **detailed policies** are not included in the budget documentation, however they are available on request to councillors and are to be made publicly available when the budget is tabled for consultation, tabled for consideration of approval and finally approved.

This section attempts to give a **broad overview** of the budget policy framework and highlight the amended policies to be approved by council resolution.

Budget related policies include, but are not limited to:

- Revenue related policies (tariffs, credit control, revenue collection, indigents, etc)
- Free basic services including levels, households benefiting and cost
- Investment of funds, reserves, borrowing and cash management
- Supply chain management policy
- Adjustment budgets, and unforeseen and unavoidable expenditure

Revenue Related Policies

In 2015/16 the municipality approved several revised revenue related policies. These included a revised credit control and debt collection policy.

SUMMARY OF BUDGET RELATED POLICIES

In line with section 17(3) (e) when annual budget is tabled in terms of section 16(2), it must be accompanied by any proposed amendments to the budget related policies. The following budget will be tabled with draft policies and by laws, a process of having community comments will be done in April and final policies will be tabled in May together with final budget.

1. Draft Reviewed Property Rated Policy and Bylaw

- a) This policy is used to fund services that benefit the community as a whole as opposed to individual households. These include constructed and maintaining streets, roads and sidewalks, street lighting and storm water drainage facilities.
- b) The policy focuses on how the rates are imposed and impermissible rates. The policy gives rebate to property owners of the first R15 000 of the market value. The policy detailed the exemptions, reduction and rebates and clarifies who qualifies. The register of properties is divided into two parts. The bylaw will ensure that it gives effect on the implementation of this policy. This policy is in line with the property rates act.

Lukhanji Adopted Draft Budget 201617

2. Draft Reviewed Budget Policy

The objective of this policy is to set out:

- a) The principles which the Municipality will follow in preparing each MTREF
- b) The responsibilities of the Mayor, the Accounting Officer, The Chief Financial Officer and other Directors in the compilation of Budget
- c) To establish and maintain procedures to ensure adherence to the Municipal IDP and Budget processes.
- d) The Municipality did not have budget policy; they only rely on the Municipal Finance Management Act every time the budget is compiled. The policy that was in existence was budget adjustment policy and virement policy which were developed for the first time in the last financial year for its first implementation in the year under review.
- e) The policy therefore covers the budget preparation process being:
 - f) Formulation of the budget,
 - g) The public participation process
 - h) Approval process of the budget
 - i) Publication of the budget
 - j) Capital and Operating Budget, how they are funded and the process that needs to be followed.
- k) The policy also stipulate how the unspent funds must be treated
- l) Budget adjustment process in detail, who has been delegated, how to compile budget adjustment and why.
- m) Budget implementation and monitoring in terms of MFMA

3. Cash Management and Investment Policy

The policy is taken as it is from the last financial year, its objectives:

- a) To provide guidance and direction for the investment of cash within the municipality
- b) The Municipality must ensure investment diversification across the institution e.g. types of investments and its maturities
- c) Liquidity needs of the Municipality to be given due consideration when making investment decisions for the municipality.
- d) The policy statement includes:
 - e) Investment maturities
 - f) Standard care for investment
 - g) Investment limitations
 - h) Portfolio balance and competitive selection
 - i) Cash management and Reporting Requirements

4. Draft reviewed write off policy and Bylaw

- a) Main purpose of this policy is to ensure that the principles of write off of irrecoverable debt are formalised.
- b) It mentioned the categories of debtors that qualify to be written off.

Lukhanji Adopted Draft Budget 2016/17

- c) It mentioned the incentive scheme and this policy reviewed that the incentive will only apply to a debt that is in arrears as at end 30 June 2010 which will be the one that will be written off.
- d) Standing committee for finance will play a role of considering application and onward transmission to Mayoral Committee and Council for final approval.
- e) Bylaw will give effect to this policy.

5. Credit Control Policy and Bylaw

- a) The policy details how rates and services will be collected. The process starts at the application process of the services
- b) Customer service agreements
- c) Deposits that are paid when applying for the service
- d) Detailed how and when the accounts and billing are paid
- e) Metering and consumable services and all water related processes have been removed from the policy.
- f) Arrangements processes for residential and non-residential debtors
- g) Special conditions regarding arrangements and the payment of rates by instalments
- h) Payment arrangements of government departments
- i) Collection process on rental of facilities
- j) Enquiries and appeals
- k) Debt collection process general
- l) Theft and fraud and Irrecoverable debt
- m) Bylaw will give effect to this policy

6. Virement policy

- a) This policy aims to provide guidelines to management in the use of virement as a mechanism in the day to day management of their budget
- b) The only change in the policy is to allow virement on capital budget within votes of the same funding

7. Draft Review of Asset Management Policy

Main objectives of this policy are to:

- a) Ensure the effective and efficient control, utilization and management of Property Plant and Equipment.
- b) Ensure that the functional heads are aware of their roles and responsibilities regarding property, plant and equipment.
- c) To set out standards of physical asset management, recording and internal control to ensure property plant and equipment are safeguarding against loss and inappropriate utilisation
- d) To specify the process required for acquisition, transfer and disposal assets.

Lukhanji Adopted Draft Budget 201617

8. Draft Reviewed Indigent Policy and Bylaw

- a) Main objectives of this policy are to ensure:
- b) The provision of basic services to the community in a sustainable manner within financial and administrative capacity of council
- c) The financial sustainability of free basic services through the determination of appropriate tariffs that contribute to such sustainability through cross subsidisation
- d) Establishment of framework for the identification and management of indigent households including socio –economic analysis and an exit strategy
- e) The provision of procedures and guidelines for the subsidisation of basic charges and the provision of free basic energy to indigent households
- f) To ensure co-operative governance with other spheres of government and
- g) To enhance the institutional and financial capacity of the Municipality to implement the policy
- h) Bylaw will give effect to this policy

Lukhanji Adopted Draft Budget 201617

10 Budget Assumptions

Budgets are prepared in an environment of uncertainty. To prepare meaningful budgets, assumptions need to be made about internal and external factors that could influence the budget. Documentation of the assumptions used in preparing the budget assists understanding of the information. The section provides a comprehensive summary of all the assumptions used in preparing the budget.

Lukhanji Adopted Draft Budget 201617

Budget Assumptions Table 2016/17					
			Estimated 2016/17	Estimated 2017/18	Estimated 2018/19
1)	General Inflation Factor		6.6%	6.20%	5.90%
2)	Interest Rates:				
		Borrowing	9.60%	9.60%	9.60%
		Investing	6.00%	6.00%	6.00%
3)	Increases - Rates and Tariffs:				
		Growth Factor	1.20%	1.90%	2.50%
		Rates	6.80%	8.70%	11.20%
		Electricity	9.40%	11.30%	13.80%
		Refuse	8.00%	9.90%	12.40%
4)	Billing Collection Rates:				
		Rates	60.00%	62.70%	59.80%
		Electricity	86.00%	87.00%	86.00%
		Refuse	55.00%	56.00%	54.00%
		Debtor Interest	18.10%	17.60%	18.40%
5)	Bulk Electricity Purchases				
		Growth Factor	1.20%	1.90%	2.50%
		Bulk Cost Increases	9.40%	11.30%	13.80%
6)	Salary Increases				
		Salaries	7.00%	7.20%	7.20%
		Overtime	7.00%	7.20%	7.20%
		Contract Workers	7.00%	7.20%	7.20%
7)	Conditional and Unconditional Grant				
		Equitable Share	107 291 070	106 287 503	112 457 562
		FMG	1 810 000	1 970 778	2 055 311
		MSIG	250 000	262 667	0
		EPWP	1 767 297	0	0
		ISDG	2 800 000	2 800 000	2 800 000
		MIG	36 393 557	35 567 567	37 573 323
		INEP	5 000 000	8 000 000	12 000 000
8)	Indigent Packages				
	Free Basic Electricity		50kwh p.m	50kwh p.m	50kwh p.m
		66	Full Package per annal budget	Full Package per annal budget	Full Package per annal budget
	Refuse Removal and Property Rates.				

Lukhanji Adopted Draft Budget 2016/17

The above assumptions were different from what was anticipated at the planning stage of the 2015/16 budget was. It must be noted however that as the year progresses some of these guidelines had changed due to the dynamic nature of the economy of South Africa.

Billing collections for the 2016/17 was anticipated to be at 91.0% but from the collection rate achieved in the first half of the 2015/16, the collection rate for property rate has been revised down considerably to 60.0%. Reasons for this downward revision has been reported in the mid – year budget assessment report in January this year.

Equitable Share which was expected to be R115 174 000 in the first year of the MTEF, was cut down to only R107 291 030 as indicated in the DORA allocations published in February 2016. This has affected the 2016/17 budget negatively.

Electricity tariff was expected to increase by 7.0% but by NERSA guidelines the rate will be hiked by 9.4% in 2016/17, commencing on the 1st of July 2016. Nevertheless these guidelines enable the municipality to work within set parameters

General inflation outlook and its impact on the municipal activities

General inflationary pressure is expected to remain in the moderate range as per the National Treasury forecasts. We have used the guidelines as per circular 78, 79 and 80 from National Treasury for the next three years when preparing this medium term budget

Interest rates for borrowing and investment of funds

Based on historical trends and current market analysis we have used 10.5% as the base interest rate on all loans that we anticipate taking out over the medium term estimate. Investment income is calculated using a 6% rate for cash invested.

Rates, tariffs, charges and timing of revenue collection

The Lukhanji Municipality is still in the process of performing new valuations on property within the municipality. As a result of this, current valuations use property values sometimes dating back many years. Because of the uncertainty of when the new valuation roles will be completed we have conservatively used a zero percent increase in values for property. Rates are set to increase by 6.8% representing the CPIX plus a moderate 1.0%.

A costing study was conducted in 2009/10 to assist the municipality in determining the 'total' direct and indirect cost of delivering the various services to the community. As a result of this study a new costing model was developed to distribute the indirect or 'administrative' costs incurred by the municipality. This new costing model is reflected in the proposed tariffs for the municipality this year.

Lukhanji Adopted Draft Budget 201617

Refuse charges are set to remain at 8% this year. This is as a result of the service not breaking even or running at a loss. This will have to be increased over a number of years to ensure that the service is fully funded. In addition the municipality incurred a 'substantial cost' in the current 2015/16 financial year to replace most of its waste management fleet. The municipality needs to recoup this cost in the next three years.

Electrical service is dependent on bulk electric purchases from ESKOM. As a result of the 9.4% increase in the cost of bulk electricity, the tariffs charged to customers will increase this year by same margin. However, a final word from Nersa could change this percentage increase. Indigent customers will be subsidized as follows:

0 – 50kw	free
51kw onwards	9.4% Increase

Collection rates for each revenue source and customer type

(for more detail see section 15 – revenue by source and vote)

Collection of billed services continues to be problematic in many areas of the municipality. As a result of this the allowance for bad debts has been increased substantially over the past years to more closely reflect the actual collection rate of municipal services. These lower collection rates continue to put upward pressure on service tariffs and will require a conscience effort to address in the future.

Collection rates for services that are billed to the community are usually very different than the amount actually billed for a particular service. This is the result of many different factors including consumer attitude, ability to pay and other issues. The municipality began a project plan last year to improve the collection of the various billed services thru a project management plan that addresses many different areas of the billing and collection cycle.

In addition, the credit control and debt collection policy was revised last year and a debtor's write off and arrangements policies were also added to the mix. The adoption of these policies is only one part of a multi prong approach to address this issue.

Lukhanji Adopted Draft Budget 201617

Employee related costs

Salaries and related expenses make up almost 27.0% of the operating budget. This salary related expenses are increased each year by bargaining agreements controlled by SALGA.

The South African Local Government Bargaining Council recently entered into a three –year Salary and Wage Collective Agreement for the period 01 July 2015 to 30 June 2018. The agreement reached is as follows:

- *2015/16 Financial Year – 7 percent*
- *2016/17 Financial Year – average CPI (Feb 2015 – Jan 2016) + 1 percent*
- *2017/18 financial Year – average CPI (Feb 2016 – Jan 2017) +1 percent*

Salaries for municipal workers are projected to increase steadily over the medium term budget forecast. For 2016/17 salaries are projected to increase 7.0%, for 17/18 to 18/19 a projected 1.0% plus CPI will apply.

Lukhanji Adopted Draft Budget 201617

11 Funding the Budget

Fiscal Overview

Over the past few years the Lukhanji Municipality has been working to reform its financial position and reporting systems to promote sustainability and conformance to the requirements of the MFMA.

Sustainability can mean many different things but at its core is the idea of financial stability and the ability to financially meet the obligations and commitments that are required to deliver the services within the community.

The MFMA requires many things from the municipality in this respect. Some of these items include: 1) Payment of all creditors within 30 days; 2) using only realistically expected actual revenues and non-committed cash surpluses to fund the budget; 3) discontinue the use of short term borrowing (bank overdraft) to fund operating expenses; and 4) ensuring that all required reserve funds are 'cash backed'.

Primarily from a cash point of view, Lukhanji has faced serious financial difficulties over the past few years. Lukhanji is not alone. Many local municipalities in South Africa are facing the same difficulties. The reasons for this situation are not simple and neither are the solutions. Over the past years the municipality has been required to take on large numbers of employees, a large borrowing debt and a large population that simply do not have the income to pay the rates and tariffs required.

These conditions have resulted in overall low collection rates for services billed, growing pressure on salaries to become a greater and greater portion of the operating budget and finally, cash strapped bank accounts.

It is to this end the municipality has continued to focus its attention toward the past few years. Prudent budgeting and some hard decision making has allowed this goal to become a reality. The municipality will end 2015/16 with enough cash at the end of the financial year to pay all of its creditors. This, however, must not be the end.

The municipality must strengthen its credit control and debt collection efforts. We must evaluate every area of operations and ask ourselves if we are doing things in the most efficient and effective way. We must make sure that those organs of state for which we supply services to, pay for those functions in their entirety so that the municipality can be able to continue providing these services to the community.

Lukhanji Adopted Draft Budget 201617

Funded verses a balanced budget: Table SA 10

The implementation of the MFMA changes the prospective of the budget from a 'funds' prospective where the emphasis is on balancing funds going out to funds coming in to a more dynamic accounting prospective.

This new prospective requires us to analysis the budget from several viewpoints to ensure that the budget is indeed balanced in accordance with the MFMA. The MFMA requires in section 18 that the budget be funded using only 'realistically' anticipated revenues to be collected and cash backed accumulated funds that are not committed to other purposes. Borrowed funds can only be used to fund capital budget items in accordance with MFMA requirements.

Although we show revenues on an accrual basis we must ensure that revenues used to fund the budget are realistically anticipated to be collected.

To be credible the budget must be consistent with the IDP and be achievable in terms of service delivery and performance targets. Credible budgets have realistic revenue and expenditure projections and the implementation of it improves the financial viability of the municipality.

The municipality has followed these principles and the directions put forth in NT circulars 78 and 79 concerning both the budget process and funding of a municipal budget.

We have made full disclosure on all revenues using accrual methods and all cash that is available has been shown where it is legally committed to be spent.

Cash flow for the 2016/17 budget year reflects that cash receipts for the year will be sufficient to place a small surplus into working operating capital.

Table SA10 below shows that the budget is **fully funded** as required by sec 18 (2) of the MFMA.

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji Supporting Table SA10 Funding measurement

Description	MFMA section	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Funding measures												
Cash/cash equivalents at the year end - R'000	18(1)b	1	391,016	77,227	208,509	196,875	188,420	188,420	188,420	131,247	130,475	131,251
Cash + investments at the yr end less applications - R'000	18(1)b	2	284,308	154,021	202,276	121,827	176,615	176,615	176,615	159,994	166,611	172,125
Cash year end/monthly employee/supplier payments	18(1)b	3	11.4	2.2	6.7	4.5	4.2	4.2	4.2	2.8	2.6	2.5
Surplus/(Deficit) excluding depreciation offsets: R'000	18(1)	4	94,153	128,774	50,807	76,702	99,835	99,835	99,835	73,593	75,600	28,000
Service charge rev % change - macro CPIX target ex clusive	18(1)a,(2)	5	N.A.	7.8%	(23.7%)	12.4%	(6.0%)	(6.0%)	(6.0%)	2.4%	3.9%	1.3%
Cash receipts % of Ratepayer & Other revenue	18(1)a,(2)	6	104.2%	95.4%	101.2%	86.0%	77.8%	77.8%	77.8%	77.2%	77.0%	76.6%
Debt impairment expense as a % of total billable revenue	18(1)a,(2)	7	26.7%	0.0%	1.7%	18.3%	23.7%	23.7%	23.7%	21.0%	20.7%	20.9%
Capital payments % of capital expenditure	18(1)c,(19)	8	202.7%	99.7%	58.1%	100.0%	98.7%	98.7%	0.0%	98.6%	100.0%	100.0%
Borrowing receipts % of capital expenditure (ex cl. transfers)	18(1)c	9	301.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Grants % of Govt. legislated/gazetted allocations	18(1)a	10								0.0%	0.0%	0.0%
Current consumer debtors % change - incr(decr)	18(1)a	11	N.A.	(36.2%)	(34.0%)	(2.9%)	(1.7%)	0.0%	0.0%	(27.6%)	0.0%	0.0%
Long term receivables % change - incr(decr)	18(1)a	12	N.A.	0.0%	0.0%	(100.0%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
R&M % of Property Plant & Equipment	20(1)(vi)	13	1.9%	0.0%	1.2%	1.5%	1.5%	1.5%	1.9%	1.8%	1.9%	1.9%
Asset renewal % of capital budget	20(1)(vi)	14	0.0%	45.8%	0.0%	26.1%	19.4%	19.4%	0.0%	23.1%	10.3%	42.9%

11.2 – Financial Indicators – Table SA 8

The municipality is in the process of developing useful performance indicators that will be both meaningful and useful for detecting financial problems and trends that need to be investigated. These indicators are not available at this time but will be made public once finalized.

1. The positive cash balances shown in table 10A are an indication of funding compliance. Cash + investment at year end will be 131.2 million.
2. The budget has sufficient liquidity to meet average monthly operating payments. The ratio for 2016/17 financial year is +4.7 increasing to +5.3 and +5.8 in 2017/18 and 2018/19 respectively.
3. The budget also reflects a surplus before depreciation offsets. Surplus for 2016/17 shows 73.6 million.
4. Service charge revenue percentage changes showed 2.4% macro CPIX target. This is indicative of adherence to macro – economic target.
5. Cash receipts as a % of ratepayers and other revenue showed that the municipality's own funding is at 77.2% of total operating revenue.
6. Debt impairment as a % of total billable revenue is at 21.0% and remains in the same range in the medium term revenue and expenditure framework.
7. Repairs and maintenance % of property, plant and equipment is at 1.8% of total operating expenditure
8. Asset renewal % of capital budget is 23.1%. This means the municipality has committed 23.1% of its capital budget to repairs and maintenance of its infrastructure assets.
9. Percentage of own revenue to total operating revenue budget for the 2016/17 is at 80.3%.
10. Table 10A shows that the 2015/16 budget is fully funded

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA8 Performance indicators and benchmarks

Description of financial indicator	Basis of calculation	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
<u>Borrowing Management</u>											
Credit Rating											
Capital Charges to Operating Expenditure	Interest & Principal Paid /Operating Expenditure	5.3%	0.4%	0.6%	0.2%	0.4%	0.4%	0.4%	0.0%	0.0%	0.0%
Capital Charges to Own Revenue	Finance charges & Repayment of borrowing /Own Revenue	7.5%	0.4%	0.8%	0.3%	0.5%	0.5%	0.5%	0.0%	0.0%	0.0%
Borrowed funding of 'own' capital expenditure	Borrowing/Capital expenditure excl. transfers and grants and contributions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Safety of Capital</u>											
Gearing	Long Term Borrowing/ Funds & Reserves	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Liquidity</u>											
Current Ratio	Current assets/current liabilities	4.7	2.7	3.2	1.4	2.0	2.0	2.0	2.0	2.0	2.1
Current Ratio adjusted for aged debtors	Current assets less debtors > 90 days/current liabilities	4.7	2.7	3.2	1.4	2.0	2.0	2.0	2.0	2.0	2.1
Liquidity Ratio	Monetary Assets/Current Liabilities	2.5	1.5	2.3	0.9	1.5	1.5	1.5	1.5	1.6	1.7
<u>Revenue Management</u>											
Annual Debtors Collection Rate (Payment Level %)	Last 12 Mths Receipts/Last 12 Mths Billing		99.9%	99.4%	100.0%	83.9%	76.8%	76.8%	76.8%	76.4%	77.1%
Current Debtors Collection Rate (Cash receipts % of Ratepayer & Other revenue)		100.0%	99.4%	100.0%	83.9%	76.8%	76.8%	76.8%	76.4%	77.1%	77.0%
Outstanding Debtors to Revenue	Total Outstanding Debtors to Annual Revenue	32.2%	19.1%	15.9%	11.6%	11.0%	11.0%	11.0%	7.6%	7.2%	6.8%
Longstanding Debtors Recovered	Debtors > 12 Mths Recovered/Total Debtors > 12 Months Old	29.0%	23.7%	29.7%	26.4%	31.1%	31.1%	31.1%	22.5%	23.1%	27.8%
<u>Creditors Management</u>											
Creditors System Efficiency	% of Creditors Paid Within Terms (within MFMA's 65(e))	69.4%	88.7%	73.4%	77.0%	68.6%	68.6%	68.6%	87.1%	84.0%	85.2%
Creditors to Cash and Investments		8.4%	81.0%	18.3%	11.1%	14.6%	14.6%	14.6%	27.9%	28.0%	27.9%
<u>Other Indicators</u>											
Electricity Distribution Losses (2)	Total Volume Losses (kW)	0.185	0.293	0.31	0.295	0.295	0.295				
	Total Cost of Losses (Rand '000)	12,244	45,899	38,250	29,365	28,544	28,544				
	% Volume (units purchased and generated less units sold)/units purchased and generated	428	691								
Water Distribution Losses (2)	Total Volume Losses (kℓ)	0.284645099	0.305								
	Total Cost of Losses (Rand '000)	0.028236412	0.024								
	% Volume (units purchased and generated less units sold)/units purchased and generated	0	0								
Employee costs	Employee costs/(Total Revenue - capital revenue)	21.3%	26.6%	33.7%	30.8%	27.9%	27.9%	27.9%	27.2%	27.2%	27.4%
Remuneration	Total remuneration/(Total Revenue - capital revenue)	29.0%	26.9%	34.6%	34.7%	27.9%	27.9%		31.0%	31.1%	31.3%
Repairs & Maintenance	R&M/(Total Revenue excluding capital revenue)	2.9%	0.0%	2.6%	2.6%	3.0%	3.0%		3.5%	3.7%	3.7%
Finance charges & Depreciation	FC&D/(Total Revenue - capital revenue)	6.2%	0.1%	10.0%	4.8%	4.8%	4.8%	4.8%	4.7%	4.9%	5.1%
<u>IDP regulation financial viability indicators</u>											
i. Debt coverage	(Total Operating Revenue - Operating Grants)/Debt service payments due within financial year	9.3	13.8	37.3	32.2	32.2	32.2	36.9	12.0	12.1	12.8
ii. O/S Service Debtors to Revenue	Total outstanding service debtors/annual revenue received for services	55.2%	31.0%	24.8%	20.4%	20.0%	20.0%	20.0%	13.4%	12.2%	11.4%
iii. Cost coverage	(Available cash + Investments)/monthly fixed operational expenditure	11.4	2.2	6.7	4.5	4.2	4.2	4.2	2.8	2.7	2.5

Lukhanji Adopted Draft Budget 2016/17

Sources of Funding

11.3 - Rates, tariffs and other charges

The detailed listings of all of the proposed tariffs and rates for the 2016/17 financial year are contained in **appendix A**. In this section we will highlight only the major changes proposed. We will concentrate on the two major tariffs of the municipality along with the property rates.

These three revenue sources will account for an almost R342.4 million in billed revenue for the municipality in 2016/17 and will account for an estimated R263.7 million in actual cash collection. The breakdown is as follows:

<u>Item</u>	<u>Billed (000's)</u>	<u>Cash (000's)</u>
• Property Rates	84,955	58,438
• Electricity	221,828	186,928
• Refuse Collection	35,584	18,315
• Total	<u>342,367</u>	<u>263,681</u>

Property Rates

The municipality still faces the challenges regarding valuations done by the service provider. Currently the municipality is trying to obtain solutions from the service provider regarding incorrect valuations as well as properties not correctly identified in the valuation roll. This will hopefully be resolved 2016/17 and will enable the municipality to raise its rates correctly on 1 July 2017.

As shown in appendix A levied rates are proposed to be increased by **6.8%** this budget year.

Electricity Tariffs

The single largest revenue source for the municipality is the electricity tariff (R221.8 million next year). It is also the single largest expenditure – bulk electricity purchases (budgeted at R211.8 million next year).

The vast majority of domestic users of the municipal electrical distribution system are using a 'pre-paid' meter system. Using this system the municipality is able to collect the tariff charge 'up front' and eliminate all bad debts associated with these customers. This is the reason that the collection rate from the electricity tariff is so high compared to other tariffs that are billed in the conventional way.

Lukhanji Adopted Draft Budget 201617

Some 2 885 customers (including domestic, commercial and industrial) are billed via a conventional meter. As can be seen in the rates listed in appendix A, the charge to these customers is broken down into several components including fixed component and usage based component.

The initial tariff increase put forth in the budget for electricity is **9.4%** as per Nersa regulations.

Refuse Collection

Refuse collection tariffs are 'use based' fees that are based on factors such as the category of the customer and the number of removals required.

For 2016/17, **8%** increase in refuse tariffs across the board is scheduled. The tariff has been increased to partially cover the purchase of refuse trucks and other plants needed at the tip site. The listing of proposed refuse tariffs is included in appendix A.

11.5 - Investments – cash backed accumulated surplus

This section documents particulars of existing investments and predicted levels of investments based on future strategies. The portfolio of investments should also be compliant with the MFMA, regulations and investment framework.

The following tables are included to show details concerning the municipality's investments.

11.6 - Table SA15 – Investments Particulars by Type

11.7 - Table SA16 – Investments Particulars by Maturity

Lukhanji Adopted Draft Budget 2016/17

EC134 Lukhanji - Supporting Table SA15 Investment particulars by type

Investment type	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand										
<u>Parent municipality</u>										
Securities - National Government										
Listed Corporate Bonds										
Deposits - Bank		108,408	113,843	119,734	40,332	128,041	128,041	135,823	142,509	148,210
Deposits - Public Investment Commissioners										
Deposits - Corporation for Public Deposits										
Bankers Acceptance Certificates										
Negotiable Certificates of Deposit - Banks										
Guaranteed Endowment Policies (sinking)										
Repurchase Agreements - Banks										
Municipal Bonds										
Municipality sub-total	1	108,408	113,843	119,734	40,332	128,041	128,041	135,823	142,509	148,210
<u>Entities</u>										
Securities - National Government										
Listed Corporate Bonds										
Deposits - Bank										
Deposits - Public Investment Commissioners										
Deposits - Corporation for Public Deposits										
Bankers Acceptance Certificates										
Negotiable Certificates of Deposit - Banks										
Guaranteed Endowment Policies (sinking)										
Repurchase Agreements - Banks										
Entities sub-total		-	-	-	-	-	-	-	-	-
Consolidated total:		108,408	113,843	119,734	40,332	128,041	128,041	135,823	142,509	148,210

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA16 Investment particulars by maturity

Investments by Maturity	Ref	Period of Investment	Type of Investment	Capital Guarantee (Yes/ No)	Variable or Fixed interest rate	Interest Rate 3.	Commission Paid (Rands)	Commission Recipient	Expiry date of investment	Opening balance	Interest to be realised	Partial / Premature Withdrawal (4)	Investment Top Up	Closing Balance
Name of institution & investment ID	1	Yrs/Months												
Parent municipality														
Call Investment deposit										157,915	9,726	(31,818)		135,823
														-
														-
														-
														-
														-
Municipality sub-total										157,915		(31,818)	-	135,823
Entities														
														-
														-
														-
														-
														-
Entities sub-total										-		-	-	-
TOTAL INVESTMENTS AND INTEREST	1									157,915		(31,818)	-	135,823

Lukhanji Adopted Draft Budget 2016/17

11.8 - Grant allocations

The following is a listing of grants included within the budget and a brief description of each.

MUNICIPAL INFRASTRUCTURE GRANT

This fund is allocated to municipalities to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure, as well as the rehabilitation and renewal of municipal infrastructure. Conditions to the grant is to prioritise residential infrastructure for water, sanitation, refuse removal, street lighting, solid waste, connector and bulk infrastructure, and other municipal infrastructure like roads in line with the MIG policy framework. Municipalities must adhere to the labour intensive construction method and must report to DPLG in terms of the Division of Revenue Act on progress.

MUNICIPAL SYSTEM IMPROVEMENT PROGRAMME

This grant is allocated to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance system as required in the Local Government Municipal Systems Act of 2000.

Conditions include that a activity plan must be submitted in the prescribed format with detail budgets and timeframes. Submission of monthly expenditure reports in accordance of the Division of the Revenue Act.

LOCAL GOVERNMENT FINANCIAL MANAGEMENT GRANT

This grant is allocated to promote and support reforms to financial management and the implementation of the Municipal Finance Management Act.

Conditions include submission of council resolution striving to achieve multi-year budgets, accounting and reporting reforms. The employment of a skilled chief financial officer and promotion of internship programme in financial management and ongoing review, revision and submission of implementation plans to address weaknesses in financial management.

Lukhanji Adopted Draft Budget 2016/17

LOCAL GOVERNMENT SUPPORT GRANT

This grant is allocated to strengthen the capacity of municipalities, integrated planning and good governance, facilitate land and Infrastructure development and promotion of sustainable local economic and rural development as well as free basic services.

Conditions include proper utilization of the funds for which it is allocated and regular reporting in terms of the Division of Revenue Act.

11.9 -Table SA 18 - Transfers and grant receipts

Table SA 19 - Expenditure on transfers and grant programme

Table SA 20 - Reconciliation of transfers, grant receipts and unspent Funds

The tables on the following pages give a detail listing of the allocations that the municipality anticipates receiving.

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA18 Transfers and grant receipts

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand										
RECEIPTS:	1, 2									
Operating Transfers and Grants										
National Government:		116,354	123,775	126,213	127,410	127,785	127,785	113,918	111,321	117,313
Local Government Equitable Share		109,210	112,656	118,301	117,676	117,676	117,676	107,291	106,288	112,458
Finance Management		1,500	1,550	1,600	1,675	1,675	1,675	1,810	1,971	2,055
Municipal Systems Improvement		800	1,064	1,710	930	1,305	1,305	250	263	-
EPWP Incentive		2,844	1,602	1,715	1,529	1,529	1,529	1,767	-	-
Infrastructure Skills Development Grant		2,000	3,451	2,887	2,800	2,800	2,800	2,800	2,800	2,800
Other transfers/grants [insert description]										
Infrastructure Skills Development Grant			3,451		2,800	2,800	2,800			
Provincial Government:		4,150	4,267	4,262	4,260	4,970	4,970	4,150	4,150	4,150
Sport and Recreation										
Library Subsidy		4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,150
Support Grant - Human Settlement Interns Gra						710	710			
LED Assistance Grant		-	117	112	110	110	110			
District Municipality:		42,574	35,242	-	-	-	-	-	-	-
Water and Sanitation Provider		42,574	35,242							
Other grant providers:		-	-	2,164	1,949	1,949	1,949	1,820	1,778	1,879
MIG PMU Fees				1,880	1,949	1,949	1,949	1,820	1,778	1,879
Thina Sinako Hawkers Stalls				285						
Total Operating Transfers and Grants	5	163,078	163,284	132,639	133,619	134,704	134,704	119,888	117,249	123,342
Capital Transfers and Grants										
National Government:		32,122	42,559	38,711	39,022	44,466	44,466	39,574	41,789	47,695
Municipal Infrastructure Grant (MIG)		32,122	42,559	35,711	37,022	42,466	42,466	34,574	33,789	35,695
INEP				3,000	2,000	2,000	2,000	5,000	8,000	12,000
Provincial Government:		-	-	-	-	-	-	-	-	-
Other capital transfers/grants [insert description]										
District Municipality:		-	-	1,550	-	-	-	-	-	-
Fencing of Cemetery				1,050						
Paving of sidewalks in Whittlesea				500						
Other grant providers:		-	-	-	-	-	-	-	-	-
MIG PMU Fees										
Total Capital Transfers and Grants	5	32,122	42,559	40,261	39,022	44,466	44,466	39,574	41,789	47,695
TOTAL RECEIPTS OF TRANSFERS & GRANTS		195,200	205,843	172,900	172,641	179,170	179,170	159,462	159,039	171,036

Lukhanji Adopted Draft Budget 2016/17

EC134 Lukhanji - Supporting Table SA19 Expenditure on transfers and grant programme

Description		Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
R thousand			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
EXPENDITURE:		1									
Operating expenditure of Transfers and Grants											
National Government:			–	120,323	–	124,610	124,985	124,985	113,918	111,321	117,313
Local Government Equitable Share				112,656		117,676	117,676	117,676	107,291	106,288	112,458
Finance Management				1,550		1,675	1,675	1,675	1,810	1,971	2,055
Municipal Systems Improvement				1,064		930	1,305	1,305	250	263	–
EPWP Incentive				1,602		1,529	1,529	1,529	1,767	–	–
Infrastructure Skills Development Grant				3,451		2,800	2,800	2,800	2,800	2,800	2,800
				–							
Provincial Government:			4,150	4,267	4,262	4,260	4,970	4,970	4,150	4,150	4,150
Sport and Recreation											
Library Subsidy			4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,150
Support Grant - Human Settlement Interns Grant							710	710			
LED Assistance Grant			–	117	112	110	110	110			
District Municipality:			–	–	–	1,949	1,949	1,949	–	–	–
Water and Sanitation Provider						1,949	1,949	1,949			
Other grant providers:			–	–	2,164	1,949	1,949	1,949	1,820	1,778	1,879
MIG PMU Fees					1,880	1,949	1,949	1,949	1,820	1,778	1,879
Thina Sinako Hawkers Stalls					285						
Total operating expenditure of Transfers and Grants			4,150	124,590	6,426	132,767	133,852	133,852	119,888	117,249	123,342
Capital expenditure of Transfers and Grants											
National Government:			32,122	42,559	38,711	39,022	44,466	44,466	39,574	41,789	47,695
Municipal Infrastructure Grant (MIG)			32,122	42,559	35,711	37,022	42,466	42,466	34,574	33,789	35,695
INEP					3,000	2,000	2,000	2,000	5,000	8,000	12,000
Provincial Government:			–	–	–	–	–	–	–	–	–
Other capital transfers/grants [insert description]											
District Municipality:			–	–	1,550	–	–	–	–	–	–
Fencing of Cemetery					1,050						
Paving of sidewalks in Whittlesea					500						
Other grant providers:			–	–	–	–	–	–	–	–	–
MIG PMU Fees											
Total capital expenditure of Transfers and Grants			32,122	42,559	40,261	39,022	44,466	44,466	39,574	41,789	47,695
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS			36,272	167,150	46,688	171,790	178,318	178,318	159,462	159,039	171,036

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA20 Reconciliation of transfers, grant receipts and unspent funds

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand										
Operating transfers and grants:	1,3									
National Government:										
Balance unspent at beginning of the year						375	375			
Current year receipts			97,235	128,605	124,610	124,610	124,610	113,918	111,945	117,728
Conditions met - transferred to revenue		-	97,235	128,605	124,610	124,985	124,985	113,918	111,945	117,728
Conditions still to be met - transferred to liabilities										
Provincial Government:										
Balance unspent at beginning of the year										
Current year receipts					4,260	4,260	4,260	4,150	4,150	4,150
Conditions met - transferred to revenue		-	-	-	4,260	4,260	4,260	4,150	4,150	4,150
Conditions still to be met - transferred to liabilities										
District Municipality:										
Balance unspent at beginning of the year										
Current year receipts										
Conditions met - transferred to revenue		-	-	-	-	-	-	-	-	-
Conditions still to be met - transferred to liabilities										
Other grant providers:										
Balance unspent at beginning of the year										
Current year receipts		159,975	31,370	1,053	1,949	2,659	2,659	1,820	1,778	1,879
Conditions met - transferred to revenue		159,975	31,370	1,053	1,949	2,659	2,659	1,820	1,778	1,879
Conditions still to be met - transferred to liabilities										
Total operating transfers and grants revenue		159,975	128,605	129,658	130,819	131,904	131,904	119,888	117,874	123,757
Total operating transfers and grants - CTBM	2	-	-	-	-	-	-	-	-	-
Capital transfers and grants:	1,3									
National Government:										
Balance unspent at beginning of the year						6,403	6,403			
Current year receipts		12,820	12,820	32,123	40,971	39,022	39,022	41,394	41,789	47,695
Conditions met - transferred to revenue		12,820	12,820	32,123	40,971	45,425	45,425	41,394	41,789	47,695
Conditions still to be met - transferred to liabilities										
Provincial Government:										
Balance unspent at beginning of the year										
Current year receipts										
Conditions met - transferred to revenue		-	-	-	-	-	-	-	-	-
Conditions still to be met - transferred to liabilities										
District Municipality:										
Balance unspent at beginning of the year										
Current year receipts			15,476	1,550						
Conditions met - transferred to revenue		-	15,476	1,550	-	-	-	-	-	-
Conditions still to be met - transferred to liabilities										
Other grant providers:										
Balance unspent at beginning of the year										
Current year receipts										
Conditions met - transferred to revenue		-	-	-	-	-	-	-	-	-
Conditions still to be met - transferred to liabilities										
Total capital transfers and grants revenue		12,820	28,295	33,673	40,971	45,425	45,425	41,394	41,789	47,695
Total capital transfers and grants - CTBM	2	-	-	-	-	-	-	-	-	-
TOTAL TRANSFERS AND GRANTS REVENUE		172,795	156,900	163,332	171,790	177,329	177,329	161,282	159,663	171,451
TOTAL TRANSFERS AND GRANTS - CTBM		-	-	-	-	-	-	-	-	-

Lukhanji Adopted Draft Budget 2016/17

11.10 - Contributions and donations

Municipalities must budget for anticipated contributions and or donations. These could be in the form of cash or in kind. An example of an in kind contribution is infrastructure assets donated to the municipality free of charge by a developer as part of a residential development scheme. Municipalities must consider the financial and service delivery consequences of receiving contributions and donations. For example, the receipt of an infrastructure asset will require ongoing repairs and maintenance of the asset to maintain agreed service levels and standards. The revenue implications should also be considered. In the above example of a new residential development there should also be new rates and taxes on the new residential properties. Whether the new rates and taxes etc are set at levels sufficient to cover the ongoing costs of the new infrastructure is a policy decision for the council.

The municipality anticipates **no contributions and or donations** for the coming budget years.

11.11 - Sale of assets

All disposals of municipal assets is controlled by requirements put forth in the MFMA. Lukhanji municipality does not anticipate selling of portions of surplus vacant land in the 2016/17 financial year. Should there be sale of land, the revenue from this will be utilized for once off maintenance to properties and the acquisition of capital items.

11.12 - Carry over

Provision for the carryover of cash from unfinished programs and projects from the 2015/16 financial year to the 2016/17 financial year will be included in the final budget presented for approval. These funds were allocated to a specific purpose in previous financial years but for a variety of reasons the project will not be completed by the end of the financial year.

A full listing of all cash roll overs will be provided with the final budget to be tabled in June 2016'

Lukhanji Adopted Draft Budget 201617

11.13 - Proposed Future Revenue Sources

Each year when preparing the budget, thought should be given to proposed future revenue sources that could be introduced. This section will highlight these, their potential impact on future budgets and any potential issues.

The largest single potential revenue source for the municipality is the collection of billed tariffs and rates. In addition, the completion of the valuation of property within the municipality is critical to the financial future.

Both of these items will be given top priority in the coming financial year in hopes of development strategies and plans to implement improvements in the future.

11.14 - Borrowing

Lukhanji Municipality does not at this stage anticipate taking up loans for the 2016/2017 financial year. There are no long term loans or financial lease to be paid in the MTREF.

11.15 - TABLE SA17 - New Borrowing

The table on the following page outlines anticipated payments to borrowings for the year.

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA17 Borrowing

Borrowing - Categorised by type	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand										
Parent municipality										
Long-Term Loans (annuity/reducing balance)							560	-	-	-
Long-Term Loans (non-annuity)				388						
Local registered stock										
Instalment Credit										
Financial Leases		3,283	1,145	1,428	1,605	1,605	534	-	-	-
PPP liabilities										
Finance Granted By Cap Equipment Supplier										
Marketable Bonds										
Non-Marketable Bonds										
Bankers Acceptances										
Financial derivatives										
Other Securities										
Municipality sub-total	1	3,283	1,145	1,816	1,605	1,605	1,094	-	-	-
Entities										
Long-Term Loans (annuity/reducing balance)										
Long-Term Loans (non-annuity)										
Local registered stock										
Instalment Credit										
Financial Leases										
PPP liabilities										
Finance Granted By Cap Equipment Supplier										
Marketable Bonds										
Non-Marketable Bonds										
Bankers Acceptances										
Financial derivatives										
Other Securities										
Entities sub-total	1	-	-	-	-	-	-	-	-	-
Total Borrowing	1	3,283	1,145	1,816	1,605	1,605	1,094	-	-	-

Lukhanji Adopted Draft Budget 201617

12. - Table SA 21 - Disclosure on Allocations Made by the Municipality

The municipality currently does not make any allocations to other municipalities but does make expenditure on grants received.

EC134 Lukhanji - Supporting Table SA21 Transfers and grants made by the municipality

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Cash Transfers to other municipalities											
<i>Insert description</i>	1										
Total Cash Transfers To Municipalities:		-	-	-	-	-	-	-	-	-	-
Cash Transfers to Entities/Other External Mechanisms											
<i>Insert description</i>	2										
Total Cash Transfers To Entities/Ems'		-	-	-	-	-	-	-	-	-	-
Cash Transfers to other Organs of State											
<i>Insert description</i>	3										
Total Cash Transfers To Other Organs Of State:		-	-	-	-	-	-	-	-	-	-
Cash Transfers to Organisations											
<i>Insert description</i>											
Total Cash Transfers To Organisations		-	-	-	-	-	-	-	-	-	-
Cash Transfers to Groups of Individuals											
<i>Grants & Subsidies Paid</i>		1,660	5,978		7,464	8,549	8,549	8,549	6,680	6,986	6,734
Total Cash Transfers To Groups Of Individuals:		1,660	5,978	-	7,464	8,549	8,549	8,549	6,680	6,986	6,734
TOTAL CASH TRANSFERS AND GRANTS	6	1,660	5,978	-	7,464	8,549	8,549	8,549	6,680	6,986	6,734
Non-Cash Transfers to other municipalities											
<i>Insert description</i>	1										
Total Non-Cash Transfers To Municipalities:		-	-	-	-	-	-	-	-	-	-
Non-Cash Transfers to Entities/Other External Mechanisms											
<i>Insert description</i>	2										
Total Non-Cash Transfers To Entities/Ems'		-	-	-	-	-	-	-	-	-	-
Non-Cash Transfers to other Organs of State											
<i>Insert description</i>	3										
Total Non-Cash Transfers To Other Organs Of State:		-	-	-	-	-	-	-	-	-	-
Non-Cash Grants to Organisations											
<i>Insert description</i>	4										
Total Non-Cash Grants To Organisations		-	-	-	-	-	-	-	-	-	-
Groups of Individuals											
<i>Insert description</i>	5										
Total Non-Cash Grants To Groups Of Individuals:		-	-	-	-	-	-	-	-	-	-
TOTAL NON-CASH TRANSFERS AND GRANTS		-	-	-	-	-	-	-	-	-	-
TOTAL TRANSFERS AND GRANTS	6	1,660	5,978	-	7,464	8,549	8,549	8,549	6,680	6,986	6,734

Lukhanji Adopted Draft Budget 201617

13 Disclosure on Salaries, Allowances and Benefits

The tables on the following pages give the required listings of salaries, allowances and personnel as required by the MFMA.

13.1 - TABLE SA23 - Salaries, Allowances and Benefits (Political Office bearers/councillors/senior managers)

13.2 - TABLE SA22 - Summary of councillor and staff benefits

13.3 - TABLE SA24 - Summary of Personnel Numbers

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA23 Salaries, allowances & benefits (political office bearers/councillors/senior managers)

Disclosure of Salaries, Allowances & Benefits 1.	Ref	No.	Salary	Contributions	Allowances	Performance Bonuses	In-kind benefits	Total Package
Rand per annum				1.				2.
Councillors	3							
Speaker	4		472,235		181,880			654,115
Chief Whip			442,722		172,042			614,764
Executive Mayor			590,296		221,233			811,529
Deputy Executive Mayor								-
Executive Committee			1,541,776		4,918,112			6,459,888
Total for all other councillors			7,708,214		3,597,061			11,305,275
Total Councillors	8	-	10,755,243	-	9,090,328			19,845,571
Senior Managers of the Municipality	5							
Municipal Manager (MM)			1,388,436	1,785	38,520	115,703		1,544,443
Chief Finance Officer			1,115,718	1,785	153,600	100,000		1,371,102
Director - Human Settlements			987,535	1,785	275,744	100,000		1,365,064
Director - Technical Services			987,535	1,785	275,744	100,000		1,365,064
Director - Community Services			987,535	1,785	275,744	100,000		1,365,064
Director - Corporate & Human Resources			987,535	1,785	275,744	100,000		1,365,064
<i>List of each official with packages >= senior manager</i>								
Director - IPED			1,002,869	1,785				1,004,654
SEO			794,463	1,785	277,912	89,413		1,163,572
Director: Public Safety			987,535	1,785	275,744	100,000		1,365,064
Snr Manager Electrictricals			661,592	1,785	234,333	55,133		952,843
								-
								-
								-
								-
								-
								-
								-
								-
								-
Total Senior Managers of the Municipality	8,10	-	9,900,753	17,847	2,083,085	860,249		12,861,934

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA22 Summary councillor and staff benefits

Summary of Employee and Councillor remuneration R thousand	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
		A	B	C	D	E	F	G	H	I
Councillors (Political Office Bearers plus Other)	1									
Basic Salaries and Wages		10,389	10,389	14,177	15,177	15,233	15,233	16,233	16,796	17,496
Pension and UIF Contributions		–	–	–	–	–	–	–	–	–
Medical Aid Contributions		–	–	–	–	–	–	–	–	–
Motor Vehicle Allowance		3,463	3,463	4,980	5,350	5,411	5,411	5,602	6,383	6,435
Cellphone Allowance		760	760	1,010	1,010	1,709	1,709	1,709	1,709	2,350
Housing Allowances		–	–	–	–	–	–	–	–	–
Other benefits and allowances		–	–	–	–	–	–	–	–	–
Sub Total - Councillors		14,612	14,612	20,167	21,536	22,354	22,354	23,545	24,889	26,281
% increase	4		–	38.0%	6.8%	3.8%	–	5.3%	5.7%	5.6%
Senior Managers of the Municipality	2									
Basic Salaries and Wages		4,325	4,325	5,399	7,687	6,399	6,399	8,211	9,487	9,897
Pension and UIF Contributions		502	502	434	1,020	434	434	563	1,052	1,101
Medical Aid Contributions		228	228	501	300	501	501	512	300	300
Overtime		–	–	–	–	–	–	–	–	–
Performance Bonus		443	443	505	505	505	505	598	505	505
Motor Vehicle Allowance	3	332	332	397	441	397	397	402	441	441
Cellphone Allowance	3	–	–	–	–	–	–	–	–	–
Housing Allowances	3	22	22	15	50	15	15	16	50	50
Other benefits and allowances	3	–	–	11	79	11	11	11	79	79
Payments in lieu of leave		–	–	–	–	–	–	–	–	–
Long service awards		–	–	–	–	–	–	–	–	–
Post-retirement benefit obligations	6	–	–	–	–	–	–	–	–	–
Sub Total - Senior Managers of Municipality		5,852	5,852	7,262	10,081	8,262	8,262	10,313	11,913	12,372
% increase	4		–	24.1%	38.8%	(18.0%)	–	24.8%	15.5%	3.9%
Other Municipal Staff										
Basic Salaries and Wages		84,166	84,166	87,392	108,891	91,791	91,791	111,047	114,424	118,226
Pension and UIF Contributions		12,985	12,985	10,977	17,914	11,045	11,045	12,079	14,064	16,014
Medical Aid Contributions		9,442	9,442	9,531	12,346	10,896	10,896	11,633	12,346	14,346
Overtime		5,823	5,823	7,531	9,126	8,864	8,864	9,555	9,126	9,126
Performance Bonus		3,626	3,626	3,151	7,660	2,945	2,945	3,245	4,660	7,273
Motor Vehicle Allowance	3	2,999	2,999	3,310	4,427	2,942	2,942	3,002	4,427	4,427
Cellphone Allowance	3	1	1	1	–	1	1	1	–	–
Housing Allowances	3	245	245	262	494	262	262	262	494	494
Other benefits and allowances	3	2,628	2,628	2,881	1,332	2,500	2,500	3,400	1,332	1,526
Payments in lieu of leave		–	–	–	–	–	–	–	–	–
Long service awards		489	489	524	714	620	620	830	714	714
Post-retirement benefit obligations	6	–	–	–	–	–	–	–	–	–
Sub Total - Other Municipal Staff		122,404	122,404	125,559	162,903	131,868	131,868	155,056	161,586	172,145
% increase	4		–	2.6%	29.7%	(19.1%)	–	17.6%	4.2%	6.5%
Total Parent Municipality		142,868	142,868	152,988	194,520	162,483	162,483	188,914	198,388	210,798
			–	7.1%	27.1%	(16.5%)	–	16.3%	5.0%	6.3%

Lukhanji Adopted Draft Budget 2016/17

EC134 Lukhanji - Supporting Table SA24 Summary of personnel numbers

Summary of Personnel Numbers		Ref	2014/15			Current Year 2015/16			Budget Year 2016/17		
Number		1,2	Positions	Permanent employees	Contract employees	Positions	Permanent employees	Contract employees	Positions	Permanent employees	Contract employees
Municipal Council and Boards of Municipal Entities											
Councillors (Political Office Bearers plus Other Councillors)			54	–	54	54	–	54	54		54
Board Members of municipal entities	4										
Municipal employees											
Municipal Manager and Senior Managers	3		9		8	9	–	9	9		9
Other Managers	7										
Professionals			561	547	12	452	419	33	513	511	2
Finance			65	63	2	50	50	–	61	61	
Spatial/town planning			46	42	2	34	34	–	50	50	
Information Technology			4	4		4	4		2	2	
Roads			55	55		9	9		62	62	
Electricity			50	50		59	50	9	63	63	
Water									–	–	
Sanitation									–	–	
Refuse			117	117		47	47		58	58	
Other			224	216	8	249	225	24	217	215	2
Technicians			–	–	–	–	–	–	–	–	–
Finance											
Spatial/town planning											
Information Technology											
Roads											
Electricity											
Water											
Sanitation											
Refuse											
Other											
Clerks (Clerical and administrative)			53	48	8	183	183	–	187	187	
Service and sales workers											
Skilled agricultural and fishery workers											
Craft and related trades											
Plant and Machine Operators											
Elementary Occupations											
TOTAL PERSONNEL NUMBERS	9		677	595	82	698	602	96	763	698	65
% increase						3.1%	1.2%	17.1%	9.3%	15.9%	(32.3%)
Total municipal employees headcount	6, 10		674	646	28	644	600	44	763	698	65
Finance personnel headcount	8, 10		66	63	3	51	48	3	61	60	1
Human Resources personnel headcount	8, 10		22	19	3	22	19	3	23	22	1

Lukhanji Adopted Draft Budget 201617

- 14 Table SA 25 - Budgeted monthly revenue and expenditure**
- Table SA 26 - Budgeted monthly revenue and expenditure**
(Municipal Vote)
- Table SA 27 - Budgeted monthly revenue and expenditure**
(Standard Classification)
- Table SA 28 - Budgeted monthly capital expenditure**
(Municipal Vote)
- Table SA 29 - Budgeted monthly capital expenditure**
(Standard Classification)
- Table SA 30 - Budgeted Monthly cash flow**

The table on the following pages presents a monthly cash flow for the municipality over the next financial year.

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA25 Budgeted monthly revenue and expenditure

Description		Ref	Budget Year 2016/17											Medium Term Revenue and Expenditure Framework			
R thousand			July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Revenue By Source																	
Property rates			7,680	5,727	6,375	5,391	5,933	5,265	5,848	5,199	9,733	6,912	5,136	15,757	84,955	91,752	96,339
Property rates - penalties & collection charges														-	-	-	-
Service charges - electricity revenue			14,950	15,828	15,495	18,884	15,731	12,078	20,523	19,753	20,005	15,932	14,684	37,964	221,828	245,391	265,010
Service charges - water revenue														-	-	-	-
Service charges - sanitation revenue														-	-	-	-
Service charges - refuse revenue			2,611	2,301	2,904	2,204	2,088	2,492	2,548	2,915	3,862	2,568	3,201	5,946	35,638	39,196	42,328
Service charges - other														-	-	-	-
Rental of facilities and equipment			206	206	206	206	206	206	206	206	206	206	206	358	2,628	2,628	2,628
Interest earned - external investments			471	471	471	471	471	471	471	471	471	471	471	4,547	9,726	9,726	9,726
Interest earned - outstanding debtors			723	723	723	723	723	723	723	723	723	723	723	20,523	28,481	31,038	33,345
Dividends received														-	-	-	-
Fines			29	29	29	29	29	29	29	29	29	29	29	29	348	348	348
Licences and permits			331	331	331	331	331	331	331	331	331	331	331	331	3,971	3,971	3,971
Agency services			335	335	335	335	335	335	335	335	335	335	335	1,032	4,712	4,712	4,712
Transfers recognised - operational			46,520				42,500				41,799			(10,931)	119,888	117,874	123,757
Other revenue			6,645	6,645	6,645	6,645	6,645	6,645	6,645	6,645	6,645	6,645	6,645	23,314	96,408	91,973	92,193
Gains on disposal of PPE														-	-	-	-
Total Revenue (excluding capital transfers and contributions)			80,501	32,596	33,514	35,218	74,991	28,576	37,659	36,607	84,140	34,151	31,760	98,869	608,583	638,609	674,357
Expenditure By Type																	
Employee related costs			14,107	14,107	14,107	14,107	14,107	14,107	14,107	14,107	14,107	14,107	14,107	10,189	165,368	173,499	184,517
Remuneration of councillors			1,795	1,795	1,795	1,795	1,795	1,795	1,795	1,795	1,795	1,795	1,795	3,804	23,545	24,888	26,281
Debt impairment			4,831	4,831	4,831	4,831	4,831	4,831	4,831	4,831	4,831	4,831	4,831	18,731	71,873	77,915	84,171
Depreciation & asset impairment			2,221	2,221	2,221	2,221	2,221	2,221	2,221	2,221	2,221	2,221	2,221	4,228	28,659	31,515	34,392
Finance charges			5	5	5	5	5	5	5	5	5	5	5	(52)	-	-	-
Bulk purchases			15,731	15,731	15,731	15,731	15,731	15,731	15,731	15,731	15,731	15,731	15,731	38,761	211,800	219,624	230,184
Other materials														-	-	-	-
Contracted services			430	430	430	430	430	430	430	430	430	430	430	1,236	5,965	6,263	6,346
Transfers and grants			622	622	622	622	622	622	622	622	622	622	622	(162)	6,680	6,986	6,734
Other expenditure			6,240	6,240	6,240	6,240	6,240	6,240	6,240	6,240	6,240	6,240	6,240	26,054	94,693	97,920	101,733
Loss on disposal of PPE														-	-	-	-
Total Expenditure			45,981	45,981	45,981	45,981	45,981	45,981	45,981	45,981	45,981	45,981	45,981	102,787	608,583	638,609	674,357
Surplus/(Deficit)																	
Surplus/(Deficit)			34,520	(13,385)	(12,468)	(10,763)	29,010	(17,405)	(8,322)	(9,374)	38,158	(11,830)	(14,221)	(3,918)	0	(0)	0
Transfers recognised - capital			14,696				12,300				14,397			-	41,393	41,789	47,695
Contributions recognised - capital														-	-	-	-
Contributed assets			2,707	2,707	2,707	2,707	2,707	2,707	2,707	2,707	2,707	2,707	2,707	2,427	32,200	46,534	43,440
Surplus/(Deficit) after capital transfers & contributions																	
Surplus/(Deficit)			51,922	(10,679)	(9,761)	(8,057)	44,016	(14,699)	(5,616)	(6,668)	55,262	(9,124)	(11,514)	(1,491)	73,593	88,323	91,135
Taxation														-	-	-	-
Attributable to minorities														-	-	-	-
Share of surplus/ (deficit) of associate														-	-	-	-
Surplus/(Deficit)																	
Surplus/(Deficit)	1		51,922	(10,679)	(9,761)	(8,057)	44,016	(14,699)	(5,616)	(6,668)	55,262	(9,124)	(11,514)	(1,491)	73,593	88,323	91,135

References

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA26 Budgeted monthly revenue and expenditure (municipal vote)

Description	Ref	Budget Year 2016/17												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand																
Revenue by Vote																
Vote 1- Executive and council		8,468	8,468	8,468	8,468	8,468	8,468	8,468	8,468	8,468	8,468	8,468	(78)	93,072	89,477	94,382
Vote 2 - FINANCE AND ADMINISTRATION		13,836	13,836	13,836	13,836	13,836	13,836	13,836	13,836	13,836	13,836	13,836	52,465	204,665	206,856	212,420
Vote 3 - PLANNING AND DEVELOPMENT		368	368	368	368	368	368	368	368	368	368	368	368	4,421	4,421	4,421
Vote 4 - HEALTH													-	-	-	-
Vote 5 - COMMUNITY AND SOCIAL SERVICES		1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	2,927	16,791	8,638	19,643
Vote 6 - COMMUNITY SAFETY		846	846	846	846	846	846	846	846	846	846	846	1,546	10,854	10,935	10,998
Vote 7 - SPORT AND RECREATION		317	317	317	317	317	317	317	317	317	317	317	733	4,224	21,798	10,224
Vote 8 - WASTE WATER MANAGEMENT													-	-	-	-
Vote 9 - WASTE MANAGEMENT		3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,576	10,142	49,477	53,734	57,889
Vote 10 - ROADS TRANSPORT		3,180	3,180	3,180	3,180	3,180	3,180	3,180	3,180	3,180	3,180	3,180	(2,003)	32,977	42,117	49,964
Vote 11 - WATER													-	-	-	-
Vote 12 - ELECTRICTY		19,927	19,927	19,927	19,927	19,927	19,927	19,927	19,927	19,927	19,927	19,927	39,701	258,892	287,737	303,548
Vote 13 - OTHER		0	0	0	0	0	0	0	0	0	0	0	0	3	3	3
Vote 14 - HOUSING													-	-	-	-
Vote 15 - IPED		161	161	161	161	161	161	161	161	161	161	161	5,035	6,800	1,215	2,000
Total Revenue by Vote		51,940	51,940	51,940	51,940	51,940	51,940	51,940	51,940	51,940	51,940	51,940	110,835	682,176	726,932	765,492
Expenditure by Vote to be appropriated																
Vote 1- Executive and council		4,589	4,589	4,589	4,589	4,589	4,589	4,589	4,589	4,589	4,589	4,589	9,856	60,331	61,012	63,376
Vote 2 - FINANCE AND ADMINISTRATION		5,666	5,666	5,666	5,666	5,666	5,666	5,666	5,666	5,666	5,666	5,666	30,169	92,493	94,918	100,913
Vote 3 - PLANNING AND DEVELOPMENT		1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,070	21,051	22,055	23,072
Vote 4 - HEALTH													-	-	-	-
Vote 5 - COMMUNITY AND SOCIAL SERVICES		1,234	1,234	1,234	1,234	1,234	1,234	1,234	1,234	1,234	1,234	1,234	1,414	14,992	15,854	16,773
Vote 6 - COMMUNITY SAFETY		3,002	3,002	3,002	3,002	3,002	3,002	3,002	3,002	3,002	3,002	3,002	1,885	34,906	37,448	39,794
Vote 7 - SPORT AND RECREATION		1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	10,055	22,664	24,143	25,681
Vote 8 - WASTE WATER MANAGEMENT													-	-	-	-
Vote 9 - WASTE MANAGEMENT		3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,526	40,865	45,524	48,510
Vote 10 - ROADS TRANSPORT		2,648	2,648	2,648	2,648	2,648	2,648	2,648	2,648	2,648	2,648	2,648	5,978	35,104	38,878	40,468
Vote 11 - WATER													-	-	-	-
Vote 12 - ELECTRICTY		21,980	21,980	21,980	21,980	21,980	21,980	21,980	21,980	21,980	21,980	21,980	38,723	280,497	292,864	309,648
Vote 13 - OTHER		12	12	12	12	12	12	12	12	12	12	12	28	162	165	173
Vote 14 - HOUSING													-	-	-	-
Vote 15 - IPED		494	494	494	494	494	494	494	494	494	494	494	82	5,517	5,749	5,950
Total Expenditure by Vote		45,982	45,982	45,982	45,982	45,982	45,982	45,982	45,982	45,982	45,982	45,982	102,786	608,583	638,609	674,357
Surplus/(Deficit) before assoc.		5,959	5,959	5,959	5,959	5,959	5,959	5,959	5,959	5,959	5,959	5,959	8,049	73,593	88,323	91,135
Taxation													-	-	-	-
Attributable to minorities													-	-	-	-
Share of surplus/ (deficit) of associate													-	-	-	-
Surplus/(Deficit)	1	5,959	5,959	5,959	5,959	5,959	5,959	5,959	5,959	5,959	5,959	5,959	8,049	73,593	88,323	91,135

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA27 Budgeted monthly revenue and expenditure (standard classification)

Description	Ref	Budget Year 2016/17												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand																
Revenue - Standard																
<i>Governance and administration</i>		22,465	22,465	22,465	22,465	22,465	22,465	22,465	22,465	22,465	22,465	22,465	57,421	304,537	297,549	308,802
Executive and council		8,629	8,629	8,629	8,629	8,629	8,629	8,629	8,629	8,629	8,629	8,629	4,956	99,872	90,692	96,382
Budget and treasury office		13,674	13,674	13,674	13,674	13,674	13,674	13,674	13,674	13,674	13,674	13,674	52,181	202,596	204,788	210,351
Corporate services		162	162	162	162	162	162	162	162	162	162	162	284	2,069	2,069	2,069
<i>Community and public safety</i>		2,424	2,424	2,424	2,424	2,424	2,424	2,424	2,424	2,424	2,424	2,424	5,206	31,869	41,372	40,865
Community and social services		1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	2,927	16,791	8,638	19,643
Sport and recreation		317	317	317	317	317	317	317	317	317	317	317	733	4,224	21,798	10,224
Public safety		846	846	846	846	846	846	846	846	846	846	846	1,546	10,854	10,935	10,998
Housing													-	-	-	-
Health													-	-	-	-
<i>Economic and environmental services</i>		3,549	3,549	3,549	3,549	3,549	3,549	3,549	3,549	3,549	3,549	3,549	(1,635)	37,398	46,537	54,385
Planning and development		368	368	368	368	368	368	368	368	368	368	368	368	4,421	4,421	4,421
Road transport		3,180	3,180	3,180	3,180	3,180	3,180	3,180	3,180	3,180	3,180	3,180	(2,003)	32,977	42,117	49,964
Environmental protection													-	-	-	-
<i>Trading services</i>		23,502	23,502	23,502	23,502	23,502	23,502	23,502	23,502	23,502	23,502	23,502	49,846	308,369	341,472	361,437
Electricity		19,927	19,927	19,927	19,927	19,927	19,927	19,927	19,927	19,927	19,927	19,927	39,701	258,892	287,737	303,548
Water													-	-	-	-
Waste water management													-	-	-	-
Waste management		3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,576	3,576	10,146	49,477	53,734	57,889
<i>Other</i>													3	3	3	3
Total Revenue - Standard		51,940	51,940	51,940	51,940	51,940	51,940	51,940	51,940	51,940	51,940	51,940	110,840	682,176	726,932	765,492
Expenditure - Standard																
<i>Governance and administration</i>		10,749	10,749	10,749	10,749	10,749	10,749	10,749	10,749	10,749	10,749	10,749	40,107	158,341	161,679	170,239
Executive and council		5,083	5,083	5,083	5,083	5,083	5,083	5,083	5,083	5,083	5,083	5,083	9,938	65,848	66,762	69,326
Budget and treasury office		3,661	3,661	3,661	3,661	3,661	3,661	3,661	3,661	3,661	3,661	3,661	26,873	67,146	68,614	71,892
Corporate services		2,005	2,005	2,005	2,005	2,005	2,005	2,005	2,005	2,005	2,005	2,005	3,296	25,347	26,304	29,021
<i>Community and public safety</i>		4,883	4,883	4,883	4,883	4,883	4,883	4,883	4,883	4,883	4,883	4,883	18,853	72,563	77,445	82,248
Community and social services		1,234	1,234	1,234	1,234	1,234	1,234	1,234	1,234	1,234	1,234	1,234	1,414	14,992	15,854	16,773
Sport and recreation		1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	10,055	22,664	24,143	25,681
Public safety		2,502	2,502	2,502	2,502	2,502	2,502	2,502	2,502	2,502	2,502	2,502	7,385	34,906	37,448	39,794
Housing													-	-	-	-
Health													-	-	-	-
<i>Economic and environmental services</i>		4,464	4,464	4,464	4,464	4,464	4,464	4,464	4,464	4,464	4,464	4,464	7,049	56,155	60,933	63,539
Planning and development		1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,816	1,070	21,051	22,055	23,072
Road transport		2,648	2,648	2,648	2,648	2,648	2,648	2,648	2,648	2,648	2,648	2,648	5,978	35,104	38,878	40,468
Environmental protection													-	-	-	-
<i>Trading services</i>		25,374	25,374	25,374	25,374	25,374	25,374	25,374	25,374	25,374	25,374	25,374	42,249	321,363	338,387	358,158
Electricity		21,980	21,980	21,980	21,980	21,980	21,980	21,980	21,980	21,980	21,980	21,980	38,723	280,497	292,864	309,648
Water													-	-	-	-
Waste water management													-	-	-	-
Waste management		3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,395	3,526	40,865	45,524	48,510
<i>Other</i>		12	12	12	12	12	12	12	12	12	12	12	28	162	165	173
Total Expenditure - Standard		45,482	45,482	45,482	45,482	45,482	45,482	45,482	45,482	45,482	45,482	45,482	108,286	608,583	638,609	674,357
Surplus/(Deficit) before assoc.		6,458	6,458	6,458	6,458	6,458	6,458	6,458	6,458	6,458	6,458	6,458	2,554	73,593	88,323	91,135
Share of surplus/ (deficit) of associate													-	-	-	-
Surplus/(Deficit)	1	6,458	6,458	6,458	6,458	6,458	6,458	6,458	6,458	6,458	6,458	6,458	2,554	73,593	88,323	91,135

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA28 Budgeted monthly capital expenditure (municipal vote)

Description	Ref	Budget Year 2016/17												Medium Term Revenue and Expenditure Framework		
R thousand		July	August	Sept.	October	Nov.	Dec.	January	Feb.	March	April	May	June	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Multi-year expenditure to be appropriated	1															
Vote 1- Executive and council													1,000	1,000	-	-
Vote 2 - FINANCE AND ADMINISTRATION													2,020	2,020	1,778	1,879
Vote 3 - PLANNING AND DEVELOPMENT													-	-	-	-
Vote 4 - HEALTH													-	-	-	-
Vote 5 - COMMUNITY AND SOCIAL SERVICES			1,800		2,500	1,000		2,005	1,200				2,568	11,073	2,500	13,500
Vote 6 - COMMUNITY SAFETY													-	-	-	-
Vote 7 - SPORT AND RECREATION			550		1,000		600		645				1,205	4,000	21,574	10,000
Vote 8 - WASTE WATER MANAGEMENT													-	-	-	-
Vote 9 - WASTE MANAGEMENT													-	-	-	-
Vote 10 - ROADS TRANSPORT		2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	(800)	26,700	35,500	43,195
Vote 11 - WATER													-	-	-	-
Vote 12 - ELECTRICITY		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	4,500	21,000	25,755	20,561
Vote 13 - OTHER													-	-	-	-
Vote 14 - HOUSING													-	-	-	-
Vote 15 - IPED				500					500				5,800	6,800	1,215	2,000
Capital multi-year expenditure sub-total	2	4,000	6,350	4,500	7,500	5,000	4,600	6,005	6,345	4,000	4,000	4,000	16,293	72,593	88,323	91,135
Single-year expenditure to be appropriated																
Vote 1- Executive and council													1,000	1,000	-	-
Vote 2 - FINANCE AND ADMINISTRATION		100	100	100	100	1,100	100	120	120	120	120	120	(2,200)	-	-	-
Vote 3 - PLANNING AND DEVELOPMENT													-	-	-	-
Vote 4 - HEALTH													-	-	-	-
Vote 5 - COMMUNITY AND SOCIAL SERVICES													-	-	-	-
Vote 6 - COMMUNITY SAFETY													-	-	-	-
Vote 7 - SPORT AND RECREATION													-	-	-	-
Vote 8 - WASTE WATER MANAGEMENT													-	-	-	-
Vote 9 - WASTE MANAGEMENT													-	-	-	-
Vote 10 - ROADS TRANSPORT													-	-	-	-
Vote 11 - WATER													-	-	-	-
Vote 12 - ELECTRICITY													-	-	-	-
Vote 13 - OTHER													-	-	-	-
Vote 14 - HOUSING													-	-	-	-
Vote 15 - IPED													-	-	-	-
Capital single-year expenditure sub-total	2	100	100	100	100	1,100	100	120	120	120	120	120	(1,200)	1,000	-	-
Total Capital Expenditure	2	4,100	6,450	4,600	7,600	6,100	4,700	6,125	6,465	4,120	4,120	4,120	15,093	73,593	88,323	91,135

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA29 Budgeted monthly capital expenditure (standard classification)

Description	Ref	Budget Year 2016/17												Medium Term Revenue and Expenditure Framework		
		July	August	Sept.	October	Nov.	Dec.	January	Feb.	March	April	May	June	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Capital Expenditure - Standard	1															
Governance and administration		10	900	625	125	1,750	1,625	100	791	125	2,125	125	2,519	10,820	2,994	3,879
Executive and council			800	500		650	1,500		666		2,000		1,684	7,800	1,215	2,000
Budget and treasury office		10	100	125	125	1,100	125	100	125	125	125	125	835	3,020	1,778	1,879
Corporate services																
Community and public safety		-	2,350	-	3,500	1,000	600	2,005	1,845	1,500	1,500	590	184	15,074	24,074	23,500
Community and social services			1,800		2,500	1,000		2,005	1,200	1,500			1,069	11,074	2,500	13,500
Sport and recreation			550		1,000		600		645		1,500	590	(885)	4,000	21,574	10,000
Public safety																
Housing																
Health																
Economic and environmental services		2,000	2,000	2,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	700	26,700	35,500	43,195
Planning and development																
Road transport		2,000	2,000	2,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	700	26,700	35,500	43,195
Environmental protection																
Trading services		-	-	2,400	895	1,500	1,800	1,500	3,500	4,500	2,800	2,000	105	21,000	25,755	20,561
Electricity				2,400	895	1,500	1,800	1,500	3,500	4,500	2,800	2,000	105	21,000	25,755	20,561
Water																
Waste water management																
Waste management																
Other																
Total Capital Expenditure - Standard	2	2,010	5,250	5,025	7,020	6,750	6,525	6,105	8,636	8,625	8,925	5,215	3,508	73,594	88,323	91,135
Funded by:																
National Government		10,254				17,515				13,202			422	41,393	41,789	47,695
Provincial Government																
District Municipality																
Other transfers and grants																
Transfers recognised - capital		10,254	-	-	-	17,515	-	-	-	13,202	-	-	422	41,393	41,789	47,695
Public contributions & donations																
Borrowing																
Internally generated funds		2,544	2,544	2,544	2,544	2,544	2,544	2,544	2,544	2,544	2,544	2,544	4,213	32,200	46,534	43,440
Total Capital Funding		12,799	2,544	2,544	2,544	20,059	2,544	2,544	2,544	15,746	2,544	2,544	4,635	73,593	88,323	91,135

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA30 Budgeted monthly cash flow

MONTHLY CASH FLOWS	Budget Year 2016/17												Medium Term Revenue and Expenditure Framework			
	July	August	Sept.	October	November	December	January	February	March	April	May	June	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19	
R thousand																
Cash Receipts By Source													1			
Property rates	2,680	4,727	4,375	5,391	5,933	5,265	5,848	5,199	5,733	6,912	5,136	1,240	58,439	63,114	65,582	
Property rates - penalties & collection charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Service charges - electricity revenue	11,950	14,828	15,495	18,884	15,731	16,078	14,523	15,753	13,005	15,932	16,684	18,064	186,928	206,784	223,316	
Service charges - water revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	1,360	1,301	1,304	1,204	1,088	1,492	1,548	1,315	1,462	1,568	1,201	1,474	16,315	20,175	21,787	
Service charges - other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rental of facilities and equipment	206	206	206	206	206	206	206	206	206	206	206	358	2,628	2,628	2,628	
Interest earned - external investments	810	810	810	810	810	810	810	810	810	810	810	810	9,726	9,726	9,726	
Interest earned - outstanding debtors	140	140	140	140	140	140	140	140	140	140	140	941	2,481	31,038	33,345	
Dividends received	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fines	29	29	29	29	29	29	29	29	29	29	29	29	348	348	348	
Licences and permits	331	331	331	331	331	331	331	331	331	331	331	331	3,971	3,971	3,971	
Agency services	393	393	393	393	393	393	393	393	393	393	393	393	4,712	4,712	4,712	
Transfer receipts - operational	46,263	-	-	-	35,201	-	-	-	38,425	-	-	(0)	119,888	117,874	123,757	
Other revenue	8,034	8,034	8,034	8,034	8,034	8,034	8,034	8,034	8,034	8,034	8,034	8,034	96,408	91,973	92,193	
Cash Receipts by Source	72,196	30,799	31,117	35,422	67,895	32,780	31,863	32,211	68,569	34,354	32,964	31,674	501,843	552,343	581,364	
Other Cash Flows by Source																
Transfer receipts - capital	14,700	-	-	-	13,600	-	-	-	13,093	-	-	-	41,393	75,600	28,000	
Contributions recognised - capital & Contributed	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	3,600	32,200	-	-	-
Proceeds on disposal of PPE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short term loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Borrowing long term/refinancing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current debtors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease (increase) other non-current receivables	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Cash Receipts by Source	89,496	33,399	33,717	38,022	84,095	35,380	34,463	34,811	84,262	36,954	35,564	35,274	575,437	627,943	609,364	
Cash Payments by Type																
Employee related costs	14,107	14,107	14,107	14,107	14,107	14,107	14,107	14,107	14,107	14,107	14,107	10,188	165,368	173,499	184,517	
Remuneration of councillors	1,795	1,795	1,795	1,795	1,795	1,795	1,795	1,795	1,795	1,795	1,795	3,804	23,545	24,888	26,281	
Finance charges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bulk purchases - Electricity	25,731	25,731	15,731	15,731	15,731	15,731	15,731	15,731	15,731	15,731	15,731	18,761	211,800	219,624	230,184	
Bulk purchases - Water & Sewer	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other materials	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contracted services	497	497	497	497	497	497	497	497	497	497	497	497	5,965	6,263	6,346	
Transfers and grants - other municipalities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers and grants - other	557	557	557	557	557	557	557	557	557	557	557	557	6,680	6,986	6,734	
Other expenditure	7,891	7,891	7,891	7,891	7,891	7,891	7,891	7,891	7,891	7,891	7,891	7,891	94,693	97,920	101,733	
Cash Payments by Type	50,578	50,578	40,578	40,578	40,578	40,578	40,578	40,578	40,578	40,578	40,578	41,697	508,051	529,180	555,794	
Other Cash Flows/Payments by Type																
Capital assets	4,100	6,450	4,600	7,600	5,100	4,700	6,125	6,465	4,120	4,120	4,120	15,093	72,593	75,600	28,000	
Repayment of borrowing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Cash Flows/Payments	1,774	1,774	1,774	1,774	1,774	1,774	1,774	1,774	1,774	1,774	1,774	1,774	21,287	23,935	24,794	
Total Cash Payments by Type	56,452	58,802	46,952	49,952	47,452	47,052	48,477	48,817	46,472	46,472	46,472	58,565	601,931	628,715	608,588	
NET INCREASE/(DECREASE) IN CASH HELD	33,044	(25,402)	(13,234)	(11,930)	36,644	(11,672)	(14,014)	(14,006)	37,791	(9,517)	(10,908)	(23,291)	(26,494)	(772)	776	
Cash/cash equivalents at the month/year begin:	158,741	191,786	166,384	153,149	141,219	177,863	166,191	152,177	138,171	175,962	166,445	155,537	158,741	132,247	131,475	131,475
Cash/cash equivalents at the month/year end:	191,786	166,384	153,149	141,219	177,863	166,191	152,177	138,171	175,962	166,445	155,537	132,247	132,247	131,475	132,251	

Lukhanji Adopted Draft Budget 201617

15 Measurable Performance Objectives (Revenue Source and Vote)

Provided in the following pages are summaries of annual measurable performance objectives for each vote. Also included is revenue by source and vote in Table 10. Annual performance objectives must be converted into quarterly targets for the Service Delivery and Budget Implementation Plan (SDBIP) and will be audited in terms of the annual performance report required by the Systems Act (refer also to chapters 2 and 5 of the annual report as per MFMA circular 11).

15.1 Table 10 – Revenues by Source and Vote

The following pages contain the listing of revenue by Source and Vote.

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA2 Matrix Financial Performance Budget (revenue source/expenditure type and dept.)

Description	Ref	Vote 1 - Executive and council	Vote 2 - FINANCE AND ADMINISTRA	Vote 3 - PLANNING AND DEVELOPME	Vote 4 - HEALTH	Vote 5 - COMMUNITY AND SOCIAL SERVICES	Vote 6 - COMMUNITY SAFETY	Vote 7 - SPORT AND RECREATIO N	Vote 8 - WASTE WATER MANAGEME	Vote 9 - WASTE MANAGEME NT	Vote 10 - ROADS TRANSPORT	Vote 11 - WATER	Vote 12 - ELECTRICTY	Vote 13 - OTHER	Vote 14 - HOUSING	Vote 15 - IPED	Total
R thousand	1																
Revenue By Source																	
Property rates			84,955														84,955
Property rates - penalties & collection charges																	-
Service charges - electricity revenue													221,828				221,828
Service charges - water revenue																	-
Service charges - sanitation revenue																	-
Service charges - refuse revenue								55		35,584	38						35,676
Service charges - other																	-
Rental of facilities and equipment						2,486		140						3			2,628
Interest earned - external investments			9,726														9,726
Interest earned - outstanding debtors			14,536							7,566			6,379				28,481
Dividends received																	-
Fines			2					346									348
Licences and permits						6		3,964									3,971
Agency services								4,712									4,712
Other revenue		190	84,804	1,621		1,140		1,661		111	6,239		403				96,199
Transfers recognised - operational		91,882	5,557	2,800		4,150		171		6,217			9,282				120,059
Gains on disposal of PPE																	-
Total Revenue (excluding capital transfers and contributions)		92,072	199,580	4,421	-	7,782	10,854	224	-	49,477	6,277	-	237,892	3	-	-	608,583
Expenditure By Type																	
Employee related costs		14,143	26,215	14,902		12,913	25,462	21,462		19,649	13,162		17,331	131			165,368
Remuneration of councillors		23,545															23,545
Debt impairment			29,269							14,358			28,245				71,873
Depreciation & asset impairment		6,802	14,792										7,065				28,659
Finance charges																	-
Bulk purchases													211,800				211,800
Other materials																	-
Contracted services			1,867				4,092						6				5,965
Transfers and grants		250	1,810	2,800									1,820				6,680
Other expenditure		21,107	26,279	3,349		2,079	5,353	1,203		6,858	14,203		14,231	31			94,693
Loss on disposal of PPE																	-
Total Expenditure		65,848	100,231	21,051	-	14,992	34,906	22,664	-	40,865	27,365	-	280,497	162	-	-	608,583
Surplus/(Deficit)		26,224	99,348	(16,630)	-	(7,210)	(24,052)	(22,440)	-	8,612	(21,088)	-	(42,605)	(159)	-	-	(0)
Transfers recognised - capital																	-
Contributions recognised - capital																	-
Contributed assets																	-
Surplus/(Deficit) after capital transfers & contributions		26,224	99,348	(16,630)	-	(7,210)	(24,052)	(22,440)	-	8,612	(21,088)	-	(42,605)	(159)	-	-	(0)

Lukhanji Adopted Draft Budget 201617

16 Disclosure on Implementation of MFMA & Other Legislation

The MFMA (Municipal Finance Management Act) became effective July 1st of 2004. Most of the requirements of the act took effect immediately; however, various delays were given to certain sections of the act based on the 'capacity' of the municipality as was determined by National Treasury. All local municipalities were classified as either a high, medium or low capacity municipality with each level given different implementation dates for the various delayed sections.

Lukhanji is classified as a medium capacity municipality and was required to meet the implementation dates put forth for medium capacity municipalities.

A MFMA implementation plan was developed to assist the municipality in implementing the required changes by the deadlines given. With only a few exceptions all sections of the MFMA were required to be implemented by Lukhanji by July 1st of 2006.

Many of the major changes required by the act have already been implemented by the municipality. Some of these include adoption and implementation of a new supply chain policy and establishment of a supply chain unit, the establishment of a budget and treasury office within the finance directorate, the adoption of various policies and procedures including policies for cash and investments, delegations within the organization, establishment of a new audit committee, policy on unforeseen and unexpected expenditures and other administrative requirements.

The budget and how it must be designed, funded and reported on is a very big part of MFMA implementation. Requirements include funding the budget only from realistic revenue, surplus cash or borrowing (but only for capital projects). The budget must also be prepared and tabled to council much earlier than was previously required (by March 31st) and must be voted on in its final form before the end of May.

Much of the implementation of the MFMA involves new and sometimes complex budgetary and financial reporting requirements. Detailed monthly budgetary reports must be delivered to the Mayor along with quarterly performance indicators. The Mayor is required to make quarterly reports to the council on all aspects of the budgets implementation and any problems that need to be addressed. A mid year performance report is to be delivered to council along with recommendations on needed mid year adjustments that need to be made. Annual, quarterly and monthly reports are required to be delivered to National Treasury in very specific formats. All of these reporting requirements are already being met.

Lukhanji Adopted Draft Budget 201617

17 Budgets and SDBIPs – Departmental / Functional (internal)

A summary of each functional SDBIP within each directorate is provided in the following pages showing the information set out in MFMA Circular 13 under the section "Format of Departmental SDBIPs":

- Purpose (outcomes);
- Service delivery description (outputs);
- Resources utilised (inputs);
- Inputs to detailed sector capital plans; and
- The link between performance measures in the SDBIP and performance contracts.

The summary of the Directorate SDBIP contain in the following pages gives performance targets and indicators for the 2016/17 year.

These are based on the draft SDBIP.

SERVICE LEVEL STANDARDS

LUKHANJI MUNICIPALITY



SERVICE STANDARDS LEVEL

SCHEDULE OF SERVICE DELIVERY STANDARDS

2016/17

Lukhanji Adopted Draft Budget 201617

Eastern Cape: EC 134 - Schedule of Service Delivery Standards Table XX 201617	
Description	
Standard	Service Level
Solid Waste Removal	
Premise based removal (Residential Frequency)	once a week
Premise based removal (Business Frequency)	it depends on the agreement between business and the municipality it can be 3 times in a week.
Bulk Removal (Frequency)	once a week but some time when the need arises it is removed twice or three times
Removal Bags provided(Yes/No)	yes
Garden refuse removal Included (Yes/No)	no
Street Cleaning Frequency in CBD	daily
Street Cleaning Frequency in areas excluding CBD	once a week
How soon are public areas cleaned after events (24hours/48hours/longer)	24 hours
Clearing of illegal dumping (24hours/48hours/longer)	longer
Recycling or environmentally friendly practices(Yes/No)	yes
Licenced landfill site(Yes/No)	yes
Water Service	
Water Quality rating (Blue/Green/Brown/NO drop)	
Is free water available to all? (All/only to the indigent consumers)	

Lukhanji Adopted Draft Budget 201617

Frequency of meter reading? (per month, per year)	
Are estimated consumption calculated on actual consumption over (two month's/three month's/longer period)	
On average for how long does the municipality use estimates before reverting back to actual readings? (months)	
<i>Duration (hours) before availability of water is restored in cases of service interruption (complete the sub questions)</i>	
One service connection affected (number of hours)	
Up to 5 service connection affected (number of hours)	
Up to 20 service connection affected (number of hours)	
Feeder pipe larger than 800mm (number of hours)	
What is the average minimum water flow in your municipality?	
Do you practice any environmental or scarce resource protection activities as part of your operations? (Yes/No)	
How long does it take to replace faulty water meters? (days)	
Do you have a cathodic protection system in place that is operational at this stage? (Yes/No)	
Electricity Service	
What is your electricity availability percentage on average per month?	0.99
Do your municipality have a ripple control in place that is operational? (Yes/No)	Yes
How much do you estimate is the cost saving in utilizing the ripple control system? Per month	R 1,080,000
What is the frequency of meters being read? (per month, per year)	Per month
Are estimated consumption calculated at consumption over (two month's/three month's/longer period)	three month
On average for how long does the municipality use estimates before reverting back to actual readings? (months)	actual readings are use and only average reading where no reading is obtained
Duration before availability of electricity is restored in cases of breakages (immediately/one day/two days/longer)	a week and depends on the availability of the meters
Are accounts normally calculated on actual readings? (Yes/no)	Yes
Do you practice any environmental or scarce resource protection activities as part of your operations? (Yes/No)	No

Lukhanji Adopted Draft Budget 201617

How long does it take to replace faulty meters? (days)	depends on the availability of meters
Do you have a plan to prevent illegal connections and prevention of electricity theft? (Yes/No)	Yes
How effective is the action plan in curbing line losses? (Good/Bad)	Bad
How soon does the municipality provide a quotation to a customer upon a written request? (days)	1-2 days
How long does the municipality takes to provide electricity service where existing infrastructure can be used? (working days)	same day
How long does the municipality takes to provide electricity service for low voltage users where network extension is not required? (working days)	1 working day
How long does the municipality takes to provide electricity service for high voltage users where network extension is not required? (working days)	7 working days
Sewerage Service	
Are your purification system effective enough to put water back in to the system after purification?	
To what extend do you subsidize your indigent consumers?	
<i>How long does it take to restore sewerage breakages on average</i>	
Severe overflow? (hours)	
Sewer blocked pipes: Large pipes? (Hours)	
Sewer blocked pipes: Small pipes? (Hours)	
Spillage clean-up? (hours)	
Replacement of manhole covers? (Hours)	
Road Infrastructure Services	
Time taken to repair a single pothole on a major road? (Hours)	20 minutes
Time taken to repair a single pothole on a minor road? (Hours)	15 minutes
Time taken to repair a road following an open trench service crossing? (Hours)	6 hours on the average
Time taken to repair walkways? (Hours)	3 days but it also depends on the damage on the walkways
Property valuations	
How long does it take on average from completion to the first account being issued? (one month/three months or longer)	one month
Do you have any special rating properties? (Yes/No)	Yes

Lukhanji Adopted Draft Budget 2016/17

Financial Management	
Is there any change in the situation of unauthorised and wasteful expenditure over time? (Decrease/Increase)	decrease
Are the financial statement outsourced? (Yes/No)	outsourced but management gets involved in the preparation of the AFS
Are there Council adopted business process restructuring the flow and management of documentation feeding to Trial Balance?	no
How long does it take for an Tax/Invoice to be paid from the date it has been received?	within 30days once we receive the invoice
Is there advance planning from SCM unit linking all departmental plans quarterly and annually including for the next two to three years procurement plans?	we plan yearly
Administration	
Reaction time on enquiries and requests?	immediately and it depends on the request
Time to respond to a verbal customer enquiry or request? (working days)	immediately and it depends on the request
Time to respond to a written customer enquiry or request? (working days)	one week it also depends on the type request
Time to resolve a customer enquiry or request? (working days)	one week it also depends on the type request
What percentage of calls are not answered? (5%,10% or more)	5%
How long does it take to respond to voice mails? (hours)	N/A
Does the municipality have control over locked enquiries? (Yes/No)	Not available
Is there a reduction in the number of complaints or not? (Yes/No)	yes
How long does it take to open an account to a new customer? (1 day/ 2 days/ a week or longer)	1 day

Lukhanji Adopted Draft Budget 201617

How many times does SCM Unit, CFO's Unit and Technical unit sit to review and resolve SCM process delays other than normal monthly management meetings?	four times a month
Community safety and licensing services	
How long does it take to register a vehicle? (minutes)	15 minutes and also depends on the que
How long does it take to renew a vehicle license? (minutes)	15 minutes and also depends on the que
How long does it take to issue a duplicate registration certificate vehicle? (minutes)	15 minutes and also depends on the que
How long does it take to de-register a vehicle? (minutes)	15 minutes and also depends on the que
How long does it take to renew a driver's license? (minutes)	30 minutes
What is the average reaction time of the fire service to an incident? (minutes)	10 minutes
What is the average reaction time of the ambulance service to an incident in the urban area? (minutes)	10 minutes
What is the average reaction time of the ambulance service to an incident in the rural area? (minutes)	45 minutes
Economic development	
How many economic development projects does the municipality drive?	7
How many economic development programme are deemed to be catalytic in creating an enabling environment to unlock key economic growth projects?	2
What percentage of the projects have created sustainable job security?	30
Does the municipality have any incentive plans in place to create an conducive environment for economic development? (Yes/No)	no
Other Service delivery and communication	
Is a information package handed to the new customer? (Yes/No)	No
Does the municipality have training or information sessions to inform the community? (Yes/No)	No
Are customers treated in a professional and humanly manner? (Yes/No)	Yes

Lukhanji Adopted Draft Budget 201617

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Lukhanji Adopted Draft Budget 2016/17

Service Delivery Budget Implementation Plan		2016/17												
Administrative Services														
Executive Councillor:		A. van Heerden												
Administrative Services Director:		S. Nkonki												
Service Delivery Unit		Government Financial Statistic (Vote) Classification												
Administration and Human Resources		1110-00	Finance & Administration											

Summary of 2016/17

Finance & Administration	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
Direct Operating Expenses	10,472,412	10,472,412	872,701	872,701	872,701	872,701	872,701	872,701	872,701	872,701	872,701	872,701	872,701	872,701
Operating Grant Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Direct Operating Expenditures	10,472,412	10,472,412	872,701	872,701	872,701	872,701	872,701	872,701	872,701	872,701	872,701	872,701	872,701	872,701
Direct Operating Income	0		0	0	0	0	0	0	0	0	0	0	0	0
Operating Grant Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Income														
Total Direct Operating Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Capital Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Lukhanji Adopted Draft Budget 2016/17

Service Delivery Budget Implementation Plan : 2016/17															
Community Services Directorate															
Executive Councillor:		Cllr. Dyan													
Community Services Acting Director:			R. Van Zyl												

Lukhanji Adopted Draft Budget 201617

8	Sport & Recreation	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	22,664,342	22,664,342	1,888,697	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695
	Operating Grant Expenses		0												
	Total Direct Operating Expenditures	22,664,342	22,664,342	1,888,697	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695	1,888,695
	Direct Operating Income	224,452	224,452	18,704	18,704	18,704	18,704	18,704	18,704	18,704	18,704	18,704	18,704	18,704	18,704
	Operating Grant Income														
	Capital Grant Income	5,733,300	5,733,300	5,733,300	0	0	0	0	0	0	0	0	0	0	0
	Total Direct Operating Income	5,957,752	5,957,752	5,752,004	18,704	18,704	18,704	18,704	18,704	18,704	18,704	18,704	18,704	18,704	18,704
	Total Capital Expenditure	5,733,300	5,733,300	477,775	477,775	477,775	477,775	477,775	477,775	477,775	477,775	477,775	477,775	477,775	477,775
11	Waste Management	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	40,865,310	26,497,133	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094
	Operating Grant Expenses														
	Total Direct Operating Expenditures	40,865,310	26,497,133	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094	2,208,094
	Direct Operating Income	41,557,769	35,109,227	3,799,221	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,052,317
	Operating Grant Income														
	Capital Grant Income														
	Total Direct Operating Income	41,557,769	35,109,227	3,799,221	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,925,769	2,052,317
	Total Capital Expenditure														

Lukhanji Adopted Draft Budget 2016/17

Service Delivery Budget Implementation Plan 2016/17															
Community Safety Directorate															
Executive Councillor: Cllr. Lungisa															
Community Services Acting Director: Vacant															
Service Delivery Unit Government Financial Statistic (Vote) Classification															
Fire Brigade 1140-18 Public Safety															
Municipal Security 1140-50 Public Safety															
Pound and Commonage 1140-62 Public Safety															
Control Room 1140-04 Public Safety															
Emergency & Disaster Planning 1140-16 Public Safety															
Traffic Administration & Control 1140-64 Public Safety															
Summary of 2016/17 Budget															
5	Public Safety	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	34,906,077	34,906,077	2,908,837	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840
	Operating Grant Expenses														
	Total Direct Operating Expenditures	34,906,077	34,906,077	2,908,837	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840	2,908,840
	Direct Operating Income	10,853,847	10,853,847	904,487	904,487	904,487	904,487	904,487	904,487	904,487	904,487	904,487	904,487	904,487	904,487
	Operating Grant Income														
	Capital Grant Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total Direct Operating Income	10,853,847	10,153,847	846,154	846,154	846,154	846,154	846,154	846,154	846,154	846,154	846,154	846,154	846,154	846,154
	Total Capital Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Lukhanji Adopted Draft Budget 2016/17

Service Delivery Budget Implementation Plan 2016/17

Human Settlements Directorate

Executive Councillor: A.E. Hulushe

Human Settlements Director:

Service Delivery Unit	Government Financial Statistic (Vote) Classification	
Queenstown Civic Centre	1270	Community & Social Services
Ashley Wyngaard Civic Centre	1274	Community & Social Services
Ekuphumleni Civic Centre	1276	Community & Social Services
Sada Civic Centre	1279	Community & Social Services
Mendi Civic Centre	1280	Community & Social Services
Mlungisi Civic Centre	1281	Community & Social Services
Ezibeleni Civic Centre	1284	Community & Social Services
Villages Civic Centre	1291	Community & Social Services
Fairview/Uitsig Flat	1180	Finance & Administrative
Art Gallery	1268	Finance & Administrative
Arts and Culture Centre	1269	Finance & Administrative
Municipal Buildings	1275	Finance & Administrative
50 Municipal Houses	1283	Finance & Administrative
Public Convenience	1285	Finance & Administrative
Rowell Old Age Home	1286	Finance & Administrative
Sunshine Municipal Buildings	1288	Finance & Administrative
Vet Diagnostic Building	1290	Finance & Administrative
Estates Administration	1020	Planning & Development
Housing Infrastructure Projects (agency)	CAPEX	Housing Projects

Summary of 2016/17 Budget

5	Community & Social Services	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	3,723,210	3,723,210	310,268	310,268	310,268	310,268	310,268	310,268	310,268	310,268	310,268	310,268	310,268	310,268
	Operating Grant Expenses														
	Total Direct Operating Expenditures	3,723,210	3,723,210	310,268	310,268	310,268	310,268	310,268	310,268	310,268	310,268	310,268	310,268	310,268	310,268
	Direct Operating Income	419,960	419,960	34,997	34,997	34,997	34,997	34,997	34,997	34,997	34,997	34,997	34,997	34,997	34,997
	Operating Grant Income														
	Capital Grant Income				0	0	0	0	0	0	0	0	0	0	0
	Total Direct Operating Income	419,960	419,960	34,997	34,997	34,997	34,997	34,997	34,997	34,997	34,997	34,997	34,997	34,997	34,997

Lukhanji Adopted Draft Budget 201617

2	Finance & Administration	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	8,043,315	989,861	82,488	82,488	82,488	82,488	82,488	82,488	82,488	82,488	82,488	82,488	82,488	82,488
	Operating Grant Expenses														
	Total Direct Operating Expenditures	8,043,315	989,861	82,488	82,488	82,488	82,488	82,488	82,488	82,488	82,488	82,488	82,488	82,488	82,488
	Direct Operating Income	2,068,530	2,068,530	172,378	172,378	172,378	172,378	172,378	172,378	172,378	172,378	172,378	172,378	172,378	172,378
	Operating Grant Income														
	Capital Grant Income		0												
	Total Direct Operating Income	2,068,530	2,068,530	172,378	172,378	172,378	172,378	172,378	172,378	172,378	172,378	172,378	172,378	172,378	172,378
	Total Capital Expenditure														
3	Planning & Development	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	8,812,693	8,812,693	734,391	734,391	734,391	734,391	734,391	734,391	734,391	734,391	734,391	734,391	734,391	734,391
	Operating Grant Expenses														
	Total Direct Operating Expenditures	8,812,693	8,812,693	734,391	734,391	734,391	734,391	734,391	734,391	734,391	734,391	734,391	734,391	734,391	734,391
	Direct Operating Income	10,750	6,750	563	563	563	563	563	563	563	563	563	563	563	563
	Operating Grant Income														
	Capital Grant Income														
	Total Direct Operating Income	10,750	6,750	896	896	896	896	896	896	896	896	896	896	896	896
	Total Capital Expenditure														

Lukhanji Adopted Draft Budget 2016/17

Service Delivery Budget Implementation Plan 2016/17															
Budget & Treasury															
Executive Councillor: M. Peter															
Chief Financial Officer: N. Ntshanga															
Service Delivery Unit															
Government Financial Statistic (Vote) Classification															
Assessment rates 1105-02 Finance & Administrative															
Financial Services Administration 1115-00 Finance & Administrative															
Computers: Information Technology 1115-04 Finance & Administrative															
Summary of 2016/17 Budget															
2	Finance & Administration	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	65,335,933	34,256,612	2,854,718	2,854,718	2,854,718	2,854,718	2,854,718	2,854,718	2,854,718	2,854,718	2,854,718	2,854,718	2,854,718	2,854,718
	Operating Grant Expenses	1,810,000	1,810,000	150,833	150,833	150,833	150,833	150,833	150,833	150,833	150,833	150,833	150,833	150,833	150,833
	Total Direct Operating Expenditure	67,145,933	36,066,612	3,005,551	3,005,551	3,005,551	3,005,551	3,005,551	3,005,551	3,005,551	3,005,551	3,005,551	3,005,551	3,005,551	3,005,551
	Direct Operating Income	194,019,444	164,750,123	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177
	Operating Grant Income	5,557,258	5,557,258	5,557,258	0	0	0	0	0	0	0	0	0	0	0
	Capital Grant Income	2,200,000	2,200,000	2,200,000											
	Total Direct Operating Income	201,776,702	172,507,381	21,486,435	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177	13,729,177

Lukhanji Adopted Draft Budget 2016/17

Service Delivery Budget Implementation Plan 2016/17															
Council General															
Executive Mayor:		N .Makanda													
Municipal Manager:		N. Gqiba													
Service Delivery Unit															
Government Financial Statistic (Vote) Classification															
Council General		1120-00				Executive and Council									
Summary of : 2016/17 Budget															
1	Council General	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	36,749,231	36,749,231	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436
	Operating Grant Expenses														
	Total Direct Operating Expenditure	36,749,231	36,749,231	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436	3,062,436
	Direct Operating Income	189,765	189,765	15,814	15,814	15,814	15,814	15,814	15,814	15,814	15,814	15,814	15,814	15,814	15,814
	Operating Grant Income	89,865,054	89,865,054	43,054,324				33,199,339				24,898,918			
	Capital Grant Income														
	Total Direct Operating Income	90,054,819	90,054,819	43,070,138	15,814	15,814	15,814	33,215,153	15,814	15,814	15,814	24,914,731	15,814	15,814	15,814
	Total Capital Expenditure														

Lukhanji Adopted Draft Budget 2016/17

Service Delivery Budget Implementation PI 2016/17																
Municipal Manager																
Executive Mayor:		N.Makanda														
Municipal Manager:		N. Gqiba														
Service Delivery Unit																
Government Financial Statistic (Vote) Classification																
Office of the Municipal Manager																
1105-00																
Executive and Council																
Summary of 2016/17 Budget																
1	Municipal Manager		Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
		Direct Operating Expe	21,564,060	12,744,433	1,062,036	1,062,036	1,062,036	1,062,036	1,062,036	1,062,036	1,062,036	1,062,036	1,062,036	1,062,036	1,062,036	1,062,036
		Operating Grant Expe	2,017,297	2,017,297	168,108	168,108	168,108	168,108	168,108	168,108	168,108	168,108	168,108	168,108	168,108	168,108
		Total Direct Operating Expendit	23,581,357	14,761,730	1,230,144	1,230,144	1,230,144	1,230,144	1,230,144	1,230,144	1,230,144	1,230,144	1,230,144	1,230,144	1,230,144	1,230,144
		Direct Operating Income								0	0	0	0	0	0	0
		Operating Grant Incom	2,017,297	2,017,297	1,767,297	250,000	0	0	0	0	0	0	0	0	0	0
		Total Direct Operating Income	2,017,297	2,017,297	1,767,297	250,000	0	0	0	0	0	0	0	0	0	0
		Total Capital Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Lukhanji Adopted Draft Budget 2016/17

Service Delivery Budget Implementation F 2016/17

LED/IDP

Executive Councilor: N. Pambo

IPED Director I. Sondlo

Service Delivery Unit

Government Financial Statistic (Vote) Classification

LED/SPU Unit

1150-00

Executive and Council

Summary of 2016/17 Budget

1	Municipal Manager	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenditure	5,517,088	5,517,088	459,757	459,757	459,757	459,757	459,757	459,757	459,757	459,757	459,757	459,757	459,757	459,757
	Operating Grant Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total Direct Operating Expenditure	5,517,088	5,517,088	459,757	459,757	459,757	459,757	459,757	459,757	459,757	459,757	459,757	459,757	459,757	459,757
	Direct Operating Income														
	Operating Grant Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Capital Grant Income														
	Total Direct Operating Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total Capital Expenditure	1,879,550	1,879,550	156,631	156,629	156,629	156,629	156,629	156,629	156,629	156,629	156,629	156,629	156,629	156,629

Lukhanji Adopted Draft Budget 2016/17

Service Delivery Budget Implementation Plan		2016/17													
Technical Services Directorate															
Executive Councillor:	M.Z.Gwantshu														
Technical Services Director:	A. Gaji	Acting Director													
Service Delivery Unit		Government Financial Statistic (Vote) Classification													
Technical Services Administration		1130-00	Electricity												
Electricity Distribution		1130-06	Electricity												
Vehicle Fleet		1130-22	Finance & Administrative												
Mechanics Workshop		1130-12	Finance & Administrative												
Aerodrome		1130-02	Other												
Infrastructure Development Unit		1130-10	Planning & Development												
Streets		1130-20	Road Transport												
Sewerage Disposal Works (agency)		1130-16	Wastewater Management												
Water Distribution (agency)		1130-26	Water												
Summary of 2016/17 Budget															
14	Electricity	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	280,497,475	245,187,623	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302
	Operating Grant Expenses														
	Total Direct Operating Expenditures	280,497,475	245,187,623	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302	20,432,302
	Direct Operating Income	200,365,081	200,365,081	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090
	Operating Grant Income	9,281,687	9,281,687	9,281,687											
	Capital Grant Income	9,000,000	9,000,000	9,000,000	0	0	0		0	0	0	0	0	0	0
	Total Direct Operating Income	218,646,768	218,646,768	34,978,777	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090	16,697,090
	Total Capital Expenditure	21,000,000	21,000,000	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000

Lukhanji Adopted Draft Budget 201617

2	Finance & Administration	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	6,831,495	6,831,495	569,291	569,291	569,291	569,291	569,291	569,291	569,291	569,291	569,291	569,291	569,291	569,291
	Operating Grant Expenses														
	Total Direct Operating Expenditures	6,831,495	6,831,495	569,291	569,291	569,291	569,291	569,291	569,291	569,291	569,291	569,291	569,291	569,291	569,291
	Direct Operating Income														
	Operating Grant Income														
	Capital Grant Income														
	Total Direct Operating Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total Capital Expenditure	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15	Other	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	161,750	161,750	13,479	13,479	13,479	13,479	13,479	13,479	13,479	13,479	13,479	13,479	13,479	13,479
	Operating Grant Expenses														
	Total Direct Operating Expenditures	161,750	161,750	13,479	13,479	13,479	13,479	13,479	13,479	13,479	13,479	13,479	13,479	13,479	13,479
	Direct Operating Income	2,840	2,840	237	237	237	237	237	237	237	237	237	237	237	237
	Operating Grant Income														
	Capital Grant Income														
	Total Direct Operating Income	2,840	2,840	237	237	237	237	237	237	237	237	237	237	237	237
	Total Capital Expenditure														

Lukhanji Adopted Draft Budget 201617

3	Planning & Development	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	9,438,109	9,438,109	786,509	786,509	786,509	786,509	786,509	786,509	786,509	786,509	786,509	786,509	786,509	786,509
	Operating Grant Expenses	2,800,000	2,800,000	233,333	233,333	233,333	233,333	233,333	233,333	233,333	233,333	233,333	233,333	233,333	233,333
	Total Direct Operating Expenditures	12,238,109	12,238,109	1,019,842	1,019,842	1,019,842	1,019,842	1,019,842	1,019,842	1,019,842	1,019,842	1,019,842	1,019,842	1,019,842	1,019,842
	Direct Operating Income	1,609,850	1,609,850	409,850	0	0	0	1,000,000	0	0	0	0	0	0	0
	Operating Grant Income	2,800,000	2,800,000	1,000,000	0	0	0	1,200,000	0	0	0	600,000	0	0	0
	Capital Grant Income			0	0	0	0	0	0	0	0	0	0	0	0
	Total Direct Operating Income	4,409,850	4,409,850	1,409,850	0	0	0	2,200,000	0	0	0	600,000	0	0	0
	Total Capital Expenditure	1,879,550	1,879,550	156,629	156,633	156,629	156,629	156,629	156,629	156,629	156,629	156,629	156,629	156,629	156,629
12	Road Transport	Original Budget	Cash Budget	July 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17
	Direct Operating Expenses	35,103,747	27,365,427	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452
	Operating Grant Expenses														
	Total Direct Operating Expenditures	35,103,747	27,365,427	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452	2,280,452
	Direct Operating Income	6,277,456	6,277,456	523,121	523,121	523,121	523,121	523,121	523,121	523,121	523,121	523,121	523,121	523,121	523,121
	Operating Grant Income														
	Capital Grant Income	26,700,000	26,700,000	10,627,803	0	0	0	10,627,803	0	0	0	5,444,395	0	0	0
	Total Direct Operating Income	32,977,456	32,977,456	11,150,924	523,121	523,121	523,121	11,150,924	523,121	523,121	523,121	5,967,516	523,121	523,121	523,121
	Total Capital Expenditure	26,700,000	26,700,000	2,225,000	2,225,000	2,225,000	2,225,000	2,225,000	2,225,000	2,225,000	2,225,000	2,225,000	2,225,000	2,225,000	2,225,000

18 Budgets and SDBIPs - Entities & Other External Mechanisms

The municipality has no entities and has no external mechanisms

19 Summary of Detailed Capital Plans

Detailed capital plans, aligned to national and provincial sector plans, will be contained in the SDBIP as per MFMA Circular No 13. These should be summarised and referenced here. The detailed plans must be submitted to National Treasury with the budget documentation. Capital programmes should be approved as an overall comprehensive capital budget to ensure that projects can be executed in terms of the implementation plans. The summary of the detailed capital plan should reflect:

- *Information by programme and municipal ward*
- *The source of the funding for the capital programme*

19.2 Table SA 34a - Capital expenditure by asset category

Table SA 34b – Capital expenditure (asset renewal by asset category)

Table SA 35 - Future financial implications of capital budget

The following pages contain the listing of capital by category.

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA34a Capital expenditure on new assets by asset class

C0104 Expenditure - Supporting Table 0104 Capital expenditure on new assets by asset class										
Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand	1									
Capital expenditure on new assets by Asset Class/Sub-class										
Infrastructure		11,019	17,396	19,830	35,164	36,821	36,821	33,700	45,223	75,135
Infrastructure - Road transport		7,633	8,069	13,869	11,883	6,993	6,993	9,700	23,500	54,573
Roads, Pavements & Bridges		7,633	8,069	13,869	11,883	6,993	6,993	9,700	23,500	54,573
Storm water										
Infrastructure - Electricity		2,945	2,610	5,851	22,668	29,216	29,216	21,000	21,723	20,561
Generation										
Transmission & Reticulation		2,945	2,610	5,851	22,668	29,216	29,216	21,000	21,723	20,561
Street Lighting										
Infrastructure - Water		-	-	-	-	-	-	-	-	-
Dams & Reservoirs										
Water purification										
Reticulation										
Infrastructure - Sanitation		-	-	-	-	-	-	-	-	-
Reticulation										
Sewerage purification										
Infrastructure - Other		442	6,717	110	612	612	612	3,000	-	-
Waste Management				89	612	612	612			
Transportation			6,717							
Gas										
Other		442		20				3,000		
Community		1,936	16,184	17,994	14,839	21,342	21,342	17,693	35,300	4,000
Parks & gardens		958	6,616	8,920	3,592	3,592	3,592	5,733	26,000	-
Sportsfields & stadia										
Swimming pools										
Community halls		333	7,029	9,074	5,830	7,704	7,704	5,160	7,000	4,000
Libraries										
Recreational facilities										
Fire, safety & emergency										
Security and policing										
Buses										
Clinics										
Museums & Art Galleries										
Cemeteries			2,539		3,600	5,700	5,700	6,000	2,300	
Social rental housing										
Other		644			1,816	4,345	4,345	800	-	-
Heritage assets		-	-	-	-	-	-	-	-	-
Buildings										
Other										
Investment properties		-	-	-	-	-	-	-	-	-
Housing development										
Other										
Other assets		11,565	2,701	-	6,700	22,279	22,279	5,200	-	-
General vehicles					1,000			1,000		
Specialised vehicles		-	-	-	4,200	6,200	6,200	-	-	-
Plant & equipment		11,540				13,429	13,429			
Computers - hardware/equipment		2				-	-			
Furniture and other office equipment			2,701		1,500	2,650	2,650	1,200		
Abattoirs						-				
Markets										
Civic Land and Buildings								3,000		
Other Buildings										
Other Land										
Surplus Assets - (Investment or Inventory)										
Other		24								
Agricultural assets		-	-	-	-	-	-	-	-	-
List sub-class										
Biological assets		-	-	-	-	-	-	-	-	-
List sub-class										
Intangibles		-	-	-	-	-	-	-	-	-
Computers - software & programming										
Other (list sub-class)										
Total Capital Expenditure on new assets	1	24,520	36,281	37,824	56,702	80,442	80,442	56,593	80,523	79,135
Specialised vehicles		-	-	-	4,200	6,200	6,200	-	-	-
Refuse					4,200	6,200	6,200			
Fire										
Conservancy										
Ambulances										

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA34b Capital expenditure on the renewal of existing assets by asset class

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand	1									
Capital expenditure on renewal of existing assets by Asset Class/Sub-class										
Infrastructure		-	30,633	-	20,000	19,393	19,393	17,000	7,800	12,000
Infrastructure - Road transport		-	30,633	-	20,000	19,393	19,393	17,000	7,800	12,000
Roads, Pavements & Bridges			26,560		12,000	11,393	11,393	17,000	7,800	12,000
Storm water			4,073		8,000	8,000	8,000			
Infrastructure - Electricity		-	-	-	-	-	-	-	-	-
Generation										
Transmission & Reticulation										
Street Lighting										
Infrastructure - Water		-	-	-	-	-	-	-	-	-
Dams & Reservoirs										
Water purification										
Reticulation										
Infrastructure - Sanitation		-	-	-	-	-	-	-	-	-
Reticulation										
Sewerage purification										
Infrastructure - Other		-	-	-	-	-	-	-	-	-
Waste Management										
Transportation	2									
Gas										
Other	3									
Community		-	-	-	-	-	-	-	-	-
Parks & gardens										
Sportsfields & stadia										
Swimming pools										
Community halls										
Libraries										
Recreational facilities										
Fire, safety & emergency										
Security and policing										
Buses	7									
Clinics										
Museums & Art Galleries										
Cemeteries										
Social rental housing	8									
Other										
Heritage assets		-	-	-	-	-	-	-	-	-
Buildings										
Other	9									
Investment properties		-	-	-	-	-	-	-	-	-
Housing development										
Other										
Other assets		-	-	-	-	-	-	-	-	-
General vehicles										
Specialised vehicles	10	-	-	-	-	-	-	-	-	-
Plant & equipment										
Computers - hardware/equipment										
Furniture and other office equipment										
Abattoirs										
Markets										
Civic Land and Buildings										
Other Buildings										
Other Land										
Surplus Assets - (Investment or Inventory)										
Other										
Agricultural assets		-	-	-	-	-	-	-	-	-
List sub-class										
Biological assets		-	-	-	-	-	-	-	-	-
List sub-class										
Intangibles		-	-	-	-	-	-	-	-	-
Computers - software & programming										
Other (list sub-class)										
Total Capital Expenditure on renewal of existing	1	-	30,633	-	20,000	19,393	19,393	17,000	7,800	12,000

Lukhanji Adopted Draft Budget 2016/17

EC134 Lukhanji - Supporting Table SA35 Future financial implications of the capital budget

Vote Description	Ref	2016/17 Medium Term Revenue & Expenditure Framework			Forecasts			
		Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22	Present value
R thousand								
Capital expenditure	1							
Vote 1- Executive and council		2,000	-	-				
Vote 2 - FINANCE AND ADMINISTRATION		2,020	1,778	1,879	2,450	2,181	3,400	2,750
Vote 3 - PLANNING AND DEVELOPMENT		-	-	-				
Vote 4 - HEALTH		-	-	-				
Vote 5 - COMMUNITY AND SOCIAL SERVICES		11,073	2,500	13,500	8,400	7,500	9,400	8,800
Vote 6 - COMMUNITY SAFETY		-	-	-				
Vote 7 - SPORT AND RECREATION		4,000	21,574	10,000	5,050	8,500	16,000	14,000
Vote 8 - WASTE WATER MANAGEMENT		-	-	-				
Vote 9 - WASTE MANAGEMENT		-	-	-	5,400		3,200	
Vote 10 - ROADS TRANSPORT		26,700	35,500	43,195	16,400	11,000	18,700	14,600
Vote 11 - WATER		-	-	-				
Vote 12 - ELECTRICITY		21,000	25,755	20,561	16,000	22,000	15,500	18,200
Vote 13 - OTHER		-	-	-				
Vote 14 - HOUSING		-	-	-				
Vote 15 - IPED		6,800	1,215	2,000	4,000	3,500	4,500	5,600
<i>List entity summary if applicable</i>								
Total Capital Expenditure		73,593	88,323	91,135	57,700	54,681	70,700	63,950

Lukhanji Adopted Draft Budget 201617

EC134 Lukhanji - Supporting Table SA36 Detailed capital budget

Municipal Vote/Capital project	Ref	Program/Project description	Project number	IDP Goal code	Individually Approved (Yes/No)	Asset Class	Asset Sub-Class	GPS co-ordinates	Total Project Estimate	Prior year outcomes		2016/17 medium term Revenue & Expenditure			Project information	
										Audited Outcome 2014/15	Current Year 2015/16 Full Year	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19	Ward location	New or renewal
R thousand	4				6	3	3	5								
Parent municipality:																
List all capital projects grouped by Municipal Vote																
Vote 10 - ROADS TRANSPORT		Upgrade of Rural Gravel Roads for Completion of the inter-modal	E	Yes	Yes	Infrastructure - Road transport	Roads, Pavements & Bridges	31°53'55.90"S	5,751	8,000	5,000	-	-	-	all	Renewal
Vote 10 - ROADS TRANSPORT		Road from Railway line to Ezibeleni - Top Street Mlungisi	E	Yes	Yes	Infrastructure - Road transport	Roads, Pavements & Bridges	31°54'40.76"S	8,300	6,993	5,200	-	-	-	all	New
Vote 10 - ROADS TRANSPORT		Alexandra Street CBD	E	Yes	Yes	Infrastructure - Road transport	Roads, Pavements & Bridges	31°54'39.43"S	-	-	3,400	-	-	-	3	New
Vote 10 - ROADS TRANSPORT		Sada Main Taxi Road	E	Yes	Yes	Infrastructure - Road transport	Roads, Pavements & Bridges	31°53'32.84"S	-	-	2,200	-	-	-	4	New
Vote 10 - ROADS TRANSPORT		Bushell Street CBD	E	Yes	Yes	Infrastructure - Road transport	Roads, Pavements & Bridges	32°11'55.96"S	-	-	2,100	-	-	-	23	New
Vote 10 - ROADS TRANSPORT		Dalamba Street Mlungisi	E	Yes	Yes	Infrastructure - Road transport	Roads, Pavements & Bridges	32°11'55.96"S	-	-	1,211	-	-	-	27	New
Vote 10 - ROADS TRANSPORT		Big Street SADA	E	Yes	Yes	Infrastructure - Road transport	Roads, Pavements & Bridges	31°53'47.33"S	-	-	2,200	-	-	-	10	New
Vote 10 - ROADS TRANSPORT		Bell & Woodhouse Streets CBD	E	Yes	Yes	Infrastructure - Road transport	Roads, Pavements & Bridges	31°54'18.02"S	-	-	-	-	-	-	2	New
Vote 12 - ELECTRICITY		Installation of No. high-mast lights	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	32°11'38.53"S	-	-	-	-	-	-	4	New
Vote 12 - ELECTRICITY		Refurbishment of the switch gear at .	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	31°54'17.67"S	-	-	2,100	-	-	-	6	New
Vote 12 - ELECTRICITY		Refurbishment of Mlungisi KV and LV	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	-	-	3,000	-	-	-	15	New
Vote 12 - ELECTRICITY		Supply and commissioning of 20	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	-	-	3,000	-	-	-	12	New
Vote 12 - ELECTRICITY		Upgrading of 22/11KV cable feed in	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	-	-	2,000	-	-	-	27	New
Vote 12 - ELECTRICITY		Ezibeleni 11kV Open Wire ringfeed	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	-	-	-	-	-	-	7	New
Vote 12 - ELECTRICITY		Town Hall Sanlam T 11KV Cable	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	-	-	3,000	-	-	-	7	New
Vote 12 - ELECTRICITY		New 20MVA 66/11kV transformer for Mlungisi	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	-	-	2,959	-	-	-	8	New
Vote 12 - ELECTRICITY		Mlungisi MV strengthening (Phase 1)	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	-	-	1,512	-	-	-	10	New
Vote 12 - ELECTRICITY		Mlungisi LV Refurbishment (Phase 2)	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	-	-	-	-	-	-	4	New
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Community Hall in Ward 1	F	Yes	Yes	Community	Community halls	32°00'42.52"S	4,100	4,850	160	-	-	-	1	New
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Community Hall in Ward 7	F	Yes	Yes	Community	Community halls	31°55'17.39"S	4,760	1,460	-	-	-	-	7	New
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Ilange Cemetery	D	Yes	Yes	Community	Cemeteries	31°58'51.32"S	1,000	-	5,500	-	2,000	1.2	new	
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Lesseyton Cemetery	D	Yes	Yes	Community	Cemeteries	31°50'37.97"S	1,000	3,600	414	-	-	-	27	New
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Whittlesea Cemetery	D	Yes	Yes	Community	Cemeteries	32°10'27.07"S	-	-	1,500	-	1,500	-	17	New
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Ilange Sports field	H	Yes	Yes	Community	Sportsfields & stadia	31°58'21.62"S	8,800	3,592	-	-	-	-	1	New
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Fencing of Grazing Camps in various	C	Yes	Yes	Community	Other	MANY COORDINATES	-	1,000	1,215	1,000	1,000	all	1	New
Vote 12 - ELECTRICITY		Lukhanji community Lighting	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	MANY COORDINATES	2,000	9,000	4,000	1,000	1,000	all	new	
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Community Hall in ward 17	F	Yes	Yes	Community	Community halls	32°10'00"S	-	400	5,000	1,000	10,000	17	new	
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Construction of shearing shed	C	Yes	Yes	Community	Other	TE HAS BEEN IDENTIFIED	-	-	800	-	1,000	new		
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Lesseyton sportfield	H	Yes	Yes	Community	Sportsfields & stadia	31°50'34.72"S	-	-	2,000	6,500	4,000	27	new	
Vote 5 - COMMUNITY AND SOCIAL SERVICE		McBride sportfield	H	Yes	Yes	Community	Sportsfields & stadia	MANY COORDINATES	-	-	2,000	8,071	2,000	14	new	
Vote 10 - ROADS TRANSPORT		Roads & Stormwater projects in	E	Yes	Yes	Infrastructure - Road transport	Roads, Pavements & Bridges	32°02'07.89"S	-	-	-	-	-	Various wards	mew	
Vote 10 - ROADS TRANSPORT		Qwabi Bridge over Kuzitungu River	E	Yes	Yes	Infrastructure - Road transport	Roads, Pavements & Bridges	31°53'58.23"S	-	-	4,500	4,000	2,195	13	Renewal	
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Rehabilitation of Ezibeleni Stadium	H	Yes	Yes	Community	Sportsfields & stadia	32°11'48.18"S	-	-	-	-	-	4	Renewal	
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Renovation and extension of the	H	Yes	Yes	Community	Sportsfields & stadia	-	-	-	-	-	-	10	Renewal	
Vote 10 - ROADS TRANSPORT		Whittlesea Ext 4 Roads and	E	Yes	Yes	Infrastructure - Road transport	Storm water	-	-	-	383	-	-	17	Renewal	
Vote 9 - Waste management		Purchase of Refuse Skips	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	267	612	-	-	-	15	New	
Vote 9 - Waste management		Refuse trucks	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	1,400	6,200	-	-	-	2	New	
Vote 15 LED		Revitalization of small business	G	Yes	Yes	Infrastructure - Electricity	Transmission & Reticulation	-	1,747	850	3,000	-	-	4	New	
Vote 15 LED		Construction of hawker stalls,	C	Yes	Yes	Community	Waste Management	-	-	-	485	-	-	24	Renewal	
Vote 2 - Finance		Small Capital and Equipment(Hall	C	Yes	Yes	Other Assets	specialised vehicles - Refuse	-	-	-	1,500	3,020	1,778	1,879	26	New
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Machibini Shearing Shed	C	Yes	Yes	Community	Other	-	-	-	32	-	-	24	Renewal	
Vote 5 - COMMUNITY AND SOCIAL SERVICE		Community Hall in Ward 4	C	Yes	Yes	Community	Other	-	-	-	596	-	-	26	New	

Lukhanji Adopted Draft Budget 201617

Vote 5 - COMMUNITY AND SOCIAL SERV	Upper Machibini Community Hall	A	Yes	Other	ature and other office equipment		2,770	65					17	New
Vote 5 - COMMUNITY AND SOCIAL SERV	Upgrade Machibini Telecentre	C	Yes	Community	Other			45					5	new
Vote 5 - COMMUNITY AND SOCIAL SERV	Community Hall in Ward 5	C	Yes	Community	Other			591					6	new
Vote 5 - COMMUNITY AND SOCIAL SERV	Community Hall in Ward 13	C	Yes	Community	Other			131					8	new
Vold 2 - Finance	Fleet Replacement	H	Yes	Community	Sportsfields & stadia	26°52'03.61"E		13,713					25	new
Vold 2 - Finance	Mayor's Car	H	Yes	Community	Sportsfields & stadia	26°54'37.18"E		1,000					12	new
Vote 15 LED	Paving of Scalen Street	H	Yes	Community	Sportsfields & stadia	26°51'45.16"E		1,750	3,000				8	new
Vote 12 - Electricity Distribution	Military Veterans Electrification	F	Yes	Community	Community halls	26°52'13.81"E	199	2,200					12	new
Vote 12 - Electricity Distribution	Nomzamo Phase 2 Electrification	F	Yes	Community	Community halls	26°48'48.53"E		1,500					6	new
Vote 10 - ROADS TRANSPORT	Upgrade of Sada Roads	F	Yes	Community	Community halls	26°51'52.73"E		4,000					10	new
Vote 10 - ROADS TRANSPORT	Upgrade of Ilinge Roads	F	Yes	Community	Community halls	26°52'01.37"E	194	3,000					9	new
Vote 10 - ROADS TRANSPORT	Upgrade of Mlungisi Roads	E	No	Infrastructure - Road transport	Roads, Pavements & Bridges	26°49'19.19"E		9,000	800				4	new
Vote 10 - ROADS TRANSPORT	Upgrade of Ezibeleni Roads	D	Yes	Community	Cemeteries	26°52'17.67"E		1,000	800				4	new
Vote 3 - Planning & Development	MIG Retentions	G	Yes	Infrastructure - Electricity	Transmission & Reticulation			14,000	2,221				6	new
Vold 2 - Finance	Electronic management system	A	Yes	Infrastructure - Other	Specialised vehicles - Refuse				585				27	new
Vote 10 - ROADS TRANSPORT	Construction of pedestrian and	G	Yes	Infrastructure - Electricity	Street Lighting		1,285						23	new
Vote 10 - ROADS TRANSPORT	Roads and stormwater projects in	D	Yes	Infrastructure - Sanitation	Sewerage purification		1,828						4	new
Vote 10 - ROADS TRANSPORT	Construction of pedestrian and									2,000	3,000		7	new
Vote 10 - ROADS TRANSPORT	Roads and stormwater projects in									1,500	1,000		26	new
Vote 10 - ROADS TRANSPORT	Construction of Ezibeleni Stadium									3,003	4,000		24	new
Vote 5 - COMMUNITY AND SOCIAL SERV	Construction of Sada stadium Phase									4,000	3,000		26	new
Vote 12 - Electricity Distribution	New development - Nomzamo phase								2,880				13	new
Vote 12 - Electricity Distribution	New development for 200 military								2,120				12	new
Vote 12 - Electricity Distribution	New Rathwick									2,000	3,000		19	new
Vote 12 - Electricity Distribution	Ezibeleni MV & LV Distribution								2,600				18	new
Vote 12 - Electricity Distribution	Mlungisi MV & LV Distribution								3,200				3	new
Vote 12 - Electricity Distribution	Ebden Substation-Transformer								5,000				11	new
Vote 12 - Electricity Distribution	Western Substation Transformer: new									5,800			8	new
Vote 12 - Electricity Distribution	Stadium Substation Transformer: new									5,153			4	new
Vote 12 - Electricity Distribution	Ezibeleni MV & LV Distribution									4,236			2	new
Vote 12 - Electricity Distribution	Ezibeleni MV & LV Distribution									2,882			14	new
Vote 12 - Electricity Distribution	Queendustria - MV OW Upgrade:									2,375			15	new
Vote 12 - Electricity Distribution	Central Substation- LV Control Panel:									715			18	new
Vote 12 - Electricity Distribution	11kV Local Transformer oil gasification									956			13	new
Vote 12 - Electricity Distribution	66/11kV Transformer oil gasification									173			4	new
Vote 12 - Electricity Distribution	Ezibeleni 11 kV Isolating Point/ Cut									467			6	new
Vote 12 - Electricity Distribution	Ezibeleni 22 kV Eskom Feeder line										1,420		17	new
Vote 12 - Electricity Distribution	Queendustria to Ezibeleni 11kV										455		4	new
Vote 12 - Electricity Distribution	Mlungisi MV & LV Distribution										5,248		6	new
Vote 12 - Electricity Distribution	Ezibeleni 11kV OW Ringfeed										1,925		8	new
Vote 12 - Electricity Distribution	66kV Feeder line from Coldstream to										348		14	new
Vote 12 - Electricity Distribution	66kV -T- Off Switchyard: new 66kV										3,250		9	new
Vote 12 - Electricity Distribution	Ezibeleni Distribution Transformers:										1,666		6	new
Vote 12 - Electricity Distribution	Feederline to New Rathwick										2,250		2	new
Vote 12 - Electricity Distribution	Substation Perimeter Fencing/								1,200				6	new
Vote 12 - Electricity Distribution	Rehabilitate, Refurbish, upgrade, and									28,000	34,000		8	new
Vote 12 - Electricity Distribution	5 - Year Electricity Master Project				Transmission & Reticulation								3	new
Vold 2 - Finance	Vehicle for Speaker's Office				General vehicles				1,000				22	new
Parent Capital expenditure	1							68,896	99,836	73,594	88,323	91,135	1	



MFMA Circular No. 78

Municipal Finance Management Act No. 56 of 2003



Municipal Budget Circular for the 2016/17 MTREF

CONTENTS

1. 2016 LOCAL GOVERNMENT ELECTIONS AND THE BUDGET PROCESS.....	2
2. FINANCIAL IMPLICATIONS OF THE DEMARCATION PROCESS	4
2.1 SUPPORT PROVIDED TO MUNICIPALITIES	5
2.2 IMPACT OF DEMARCATION CHANGES ON FINANCIAL TRANSFERS TO MUNICIPALITIES	6
2.3 IMPLICATIONS FOR ASSETS AND LIABILITIES OF MUNICIPALITIES	6
3. THE SOUTH AFRICAN ECONOMY AND INFLATION TARGETS.....	7
4. KEY FOCUS AREAS FOR THE 2016/17 BUDGET PROCESS	7

Lukhanji Adopted Draft Budget 201617

4.1	LOCAL GOVERNMENT CONDITIONAL GRANTS AND ADDITIONAL ALLOCATIONS	7
4.2	REPORTING INDICATORS	9
4.3	MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCO)	9
5.	THE REVENUE BUDGET	10
5.1	ESKOM BULK TARIFF INCREASES	10
5.2	WATER AND SANITATION TARIFF INCREASES	11
6.	FUNDING CHOICES AND MANAGEMENT ISSUES	11
6.1	EMPLOYEE RELATED COSTS	11
6.2	REMUNERATION OF COUNCILORS	12
6.3	SERVICE LEVEL STANDARDS	12
6.4	OUTCOMES OF THE FINANCIAL MANAGEMENT CAPABILITY MATURITY MODEL (FMCMM)	12
6.5	HAND-OVER REPORTS FOR THE NEWLY ELECTED COUNCIL	12
7.	CONDITIONAL GRANT TRANSFERS TO MUNICIPALITIES	13
7.1	PLEDGING OF CONDITIONAL GRANTS	13
8.	THE MUNICIPAL BUDGET AND REPORTING REGULATIONS	13
8.1	ASSISTANCE WITH THE COMPILATION OF BUDGETS	14
9.	BUDGET PROCESS AND SUBMISSIONS FOR THE 2016/17 MTREF	15
9.1	SUBMITTING BUDGET DOCUMENTATION AND SCHEDULES FOR 2016/17 MTREF	15
9.2	BUDGET REFORM RETURNS TO THE LOCAL GOVERNMENT DATABASE FOR PUBLICATION	16
9.3	PUBLICATION OF BUDGETS ON MUNICIPAL WEBSITES	16
ANNEXURE A – CHANGES TO SCHEDULE A1 – THE ‘EXCEL FORMATS’		17
ANNEXURE B – MUNICIPALITIES AFFECTED BY REDETERMINATIONS		18
ANNEXURE C – PREVIOUS MFMA CIRCULARS		19
BUDGET MANAGEMENT ISSUES DEALT WITH IN PREVIOUS MFMA CIRCULARS		19
CONDITIONAL GRANT ISSUES DEALT WITH IN PREVIOUS MFMA CIRCULARS		20
MBRR ISSUES DEALT WITH IN PREVIOUS MFMA CIRCULARS		20

Introduction

The budget circular is compiled annually to guide municipalities on how to prepare their budget inputs. This circular focuses on the preparation of the 2016/17 Medium Term Revenue and Expenditure Framework (MTREF), reference should also be made to the previous circulars. This guidance includes national policy imperatives that should be accommodated and other relevant information. The circular provides a summary of South Africa's economic outlook, inflationary targets, financial management issues and specific reference on how to give effect to National Treasury's Municipal Budget and Reporting Regulations (MBRR). The key focus of this circular is the 2016 Local Government Elections, the demarcation process and the changes to the local government grant allocations.

1. 2016 Local Government Elections and the budget process

Local government elections are likely to be scheduled between May and August 2016; the proposed date is yet to be determined. Elections are important events – when we reaffirm our commitment to democratic and accountable government by choosing representatives of the people who will guide the work of local government for the next five years.

The following four risks need to be explicitly managed:

1. In terms of section 13 of the Municipal Property Rates Act, 2004 (Act No 6 of 2004)(MPRA) and sections 24 and 42 of the Municipal Finance Management Act, 2003 (Act No 56 of 2003)(MFMA), new tariffs for property rates, electricity, water and any other taxes and similar tariffs may only be implemented from the start of the municipal financial year (1 July). This means that the municipal council must approve the relevant tariffs before the commencement of 1 July; and, should this not happen, the municipality will not be able to increase its taxes and tariffs. Failure to obtain Council approval for the annual tariff increases would most likely cause an immediate financial crisis that may lead to the provincial executive intervening in the municipality in terms of section 139 of the Constitution;
2. In terms of section 16 of the MFMA, a municipal council must approve the annual budget for the municipality before the start of the financial year, and should a municipal council fail to do so, section 26 of the MFMA prescribes that the provincial executive **must** intervene. This provincial intervention may include dissolving the municipal council and appointing an administrator to run the municipality;
3. The outgoing council may be tempted to prepare an 'election friendly budget' – with unrealistically low tariff increases and an over-ambitious capital expenditure programme. The outcome of this approach will undoubtedly be unfunded municipal budgets that threaten their respective municipalities' financial sustainability and service delivery; and
4. Given that the timing of election campaigning coincides with the municipal public budget consultations; and there is a risk that these consultations may be neglected or used to serve the narrow interests of political parties.

In the build-up to the 2016 local government elections, municipalities are encouraged to act towards ensuring financial sustainability. Now, more than ever before, it is paramount for sound municipal decision-making so that long-term sustainability of municipal finances and service delivery is achieved beyond the election period.

Municipal finances are presently volatile and there is severe pressure to maintain healthy cash flows and maintain effective cost containment measures. It is therefore imperative that municipalities refrain from suspending credit control and debt collection efforts in a bid to win votes.

Furthermore, as the current composition and leadership of municipal councils will, for the most part, be responsible for the compilation of the 2016/17 medium-term revenue and expenditure (MTREF) budgets, councils are advised to prioritise expenditure appropriations aligned to the policy intent as described in the integrated development plans (IDPs). Infrastructure provisioning for water, sanitation, roads and electricity remain key priorities.

In addition the outgoing council is advised to critically consider the financial implications before entering into new long-term contracts that are not of priority to the municipality and avoid if possible, committing the incoming council. In addition, refrain from purchasing cars and from incurring expenditure at this stage that will financially burden the incoming council.

During this time of transition, all stakeholders should work together to ensure that municipalities continue to perform their functions efficiently and effectively. The Mayor and municipal manager should now be engaging in the process of the annual review of the fifth and last year of the IDP in terms of section 34 of the Municipal Systems Act (MSA) and the 2016/17 budget preparation process in terms of section 21 of the MFMA. It is particularly important to ensure that arrangements for the review of IDPs and preparation of budgets continue seamlessly as these processes cannot be delayed in anticipation of the announcement of an election date.

The uncertainty of the date of Election Day means that the newly elected councils may not be duly constituted by 31 May 2016 and therefore they will be unable to consider the annual budget before the start of the new municipal financial year. If the election date falls within the latter part of May 2016 and if there is any delay in declaring the election results or if the results are legally contested then it is unlikely that the new councils will be able to consider and pass the annual budget before the start of the new municipal financial year. In fact, in the case of district municipalities, there is a high probability that they will not be constituted in time to consider the annual budgets since they depend on the finalisation of the local municipality election results relevant to their respective districts. The same will apply if the election is held in June, July or August. It is for this reason that it is recommended that the outgoing council should adopt the 2016/17 MTREF budget before the start of the new financial year.

In deciding on the schedule for the 2016/17 budget process, the Mayor and municipal manager must also note that the MFMA read together with the Municipal Budget and Reporting Regulations only allows for a 'main adjustments budget' to be tabled after the mid-year budget and performance assessment has been tabled in council, i.e. after 1 January 2017. In addition, the permitted scope of an adjustments budget is quite limited in that taxes and tariffs may not be increased or decreased (refer to section 28(6) of the MFMA), and any additional revenues may only be appropriated to programmes and projects already budgeted for (refer to section 28 of the MFMA). Therefore the idea of the current council passing a 'holding budget' which the new council will change substantially through an adjustments budget soon after the start of the municipal financial year is not legally permitted.

Though an IDP is a five year strategic document of council, municipalities should note that when a new council takes office after each local government election, the norm has been that the first year of such a new council is primarily confined to implementing the last adopted IDP. Subsequent to this, it is normally in the second year of the new council where the newly

elected council will adopt its new and thoroughly interrogated and consulted IDP. This process mostly leads to an overlap of the last year of outgoing council into the new council. It is each municipal council's prerogative to decide when to approve its annual budget. However, to assist municipalities, National Treasury proposes that councils consider adopting the following approach for their 2016/17 budget process:

Outgoing council approves 2016/17 budget
<ol style="list-style-type: none"> 1. Current Mayor prepares a budget schedule that brings the review of the IDP and the tabling of the budget forward to late February or the beginning of March 2016; 2. Community consultations on the annual budget conducted in the remainder of March and early April 2016; 3. Officials complete technical work on annual budget by mid-April 2016; 4. Current council approves annual budget and reviewed IDP before the end of April 2016; and 5. Council implements annual budget from 1 July 2016.
Benefits
<ul style="list-style-type: none"> • Minimises the risk of being without an approved budget at the start of the financial year; • Ensures continuity of operations; and • Safeguards the financial sustainability of the municipality by ensuring tariff increases are locked in before the start of the financial year.
Risks
<ul style="list-style-type: none"> • New council may not concur with the priorities set out in the annual budget approved by the outgoing council, and therefore they may be reluctant to be held accountable for the implementation thereof.
Mitigating factors
<ul style="list-style-type: none"> • New council should note the overlapping year of the last year of the IDP into the first year of new council; and • Note that MFMA section 28(6) does not allow for tariff increases during the financial year of implementation of the adopted budget.

2. Financial Implications of the demarcation process

According to section 21 of the Municipal Demarcation Act, 1998 (Act No 27 of 1998), the Municipal Demarcation Board (MDB) must determine municipal boundaries and may re-determine any municipal boundaries. In June 2011, the MDB began an intensive three year consultative process of reviewing municipal boundaries. This process was concluded in 2013, and resulted in 17 local municipalities being affected by major boundary redeterminations. As a result of these changes the total number of municipalities is reduced by 8 municipalities.

Following the 2013 cycle of municipal boundary redeterminations, the Minister of Cooperative Governance and Traditional Affairs (CoGTA) submitted additional proposals requesting the MDB to consider the re-configuration of boundaries of certain municipalities. These proposals were submitted to the MBD in January, February and April 2015 in terms of section 22(2) of the Act, which gives the Minister of CoGTA the right to request the MDB to consider specific boundary changes. The process of considering these applications was finalised in 2015, resulting in 32 local municipalities being affected. As a result of these changes the total number of municipalities is reduced by a further 13 municipalities.

In total there will be a net reduction of 21 municipalities resulting in a total number of 257 municipalities in the country. A list of affected municipalities is attached as Annexure B.

Implications for municipalities that are merging (if the election is held before 1 July 2015):

- The demarcation changes are only effective from the date of the local government elections, therefore each existing municipality must compile an individual budget for the 2016/17 MTREF;
- The individual budgets will be consolidated for the newly demarcated municipality after the local government elections, regardless of the new allocations that will be published in the 2016 Division of Revenue Bill;
- In order to ensure seamless consolidation of budgets after the elections, the merging municipalities are urged to start working as a team on the planning and technical processes; and
- During the period between the date of the election and the start of the new municipal financial year on 1 July 2016 the current arrangements for the payment of staff and creditors are required to be maintained.

In addition, municipalities should be aware of the role of the Change Management Committee (CMC) of overseeing joint planning between the municipalities in preparation for the consolidated budget after the local government elections.

National Treasury will provide further information on the implications of the mergers if the elections are after the start of the 2016/17 municipal financial year. This will be done in the second budget circular to be issued in March 2016. In this scenario the currently existing municipalities would continue to exist for the beginning of the 2016/17 financial year before the mergers come into effect on the date of the election. Existing councils will have to adopt budgets and municipalities will be eligible to receive a pro-rata portion of their equitable share and some grant allocations for the period prior to the new municipal boundaries coming into effect.

2.1 Support provided to municipalities

To support the newly amalgamated municipalities to undertake a smooth transition, the Municipal Demarcation Transition Grant (MDTG) was established with a time span of three years (2015/16 to 2017/18). The purpose of the grant is to subsidise the additional institutional and administrative costs arising from major boundary changes due to come into effect after the 2016 local government elections. The grant only subsidises additional administrative costs related to the mergers (such as merging and changing administrative systems and costs related to transferring staff). It does not provide for any infrastructure funding.

All affected municipalities are also being supported by provincial departments of cooperative governance. A Change Management Committee has been established for each re-demarcation, with representation from all of the affected municipalities and their respective district municipalities and the provinces. The Department of Cooperative Governance has also established a national Municipal Demarcation Transitional Committee with the aim of coordinating the various transitional measures that need to be put in place for the affected municipalities.

The 2016 DORA will set out the funding that will be provided to the affected municipalities, and these municipalities, CMCs and affected provinces must ensure that they adhere to the conditions attached to the MDTG. In particular, business plans must be timeously submitted to the Department of Cooperative Governance so as to ensure that transfers are done in accordance with the payment schedules.

2.2 Impact of demarcation changes on financial transfers to municipalities

Implications for Local Government Equitable Share (LGES) allocations

The LGES is allocated through a formula that takes account of several factors including the number of poor households and households in a municipality, their incomes and the ability of the municipality to raise its own revenue. In calculating municipalities' equitable share allocations for 2016/17 all of these indicators will be updated in line with the new municipal boundaries. The resultant changes in the affected municipalities' equitable share allocations will be implemented by National Treasury and details of the new allocations will be published in the 2016 Division of Revenue Bill.

Implications for Municipal Infrastructure Grant (MIG) allocations

The MIG is allocated through a formula in a similar manner to the LGES (the MIG formula is based on infrastructure backlogs). The MIG formula will also be updated with data reflecting the changed municipal boundaries. The resultant changes in the affected municipalities' MIG allocations will be implemented by National Treasury and details of the new allocations will be published in the 2016 Division of Revenue Bill.

Implications for other conditional grant allocations

Allocations of other conditional grants are made to municipalities by the responsible national departments, often on a project basis. Allocations for conditional grants are only made for one year and the amounts published for the outer years in the schedules of the Division of Revenue Act are published for indicative purposes only and are not guaranteed. Departments will make their allocations for the 2016/17 financial year based on the new boundaries of municipalities. For municipalities that have been merged this means that previous indicative allocations are likely to be made to the new municipality that incorporates the municipal area where a project was planned and indicative amounts were published, however there is no guarantee of this.

Preparations for each major boundary re-determination are being overseen by a Change Management Committee (CMC). These CMCs are expected to play a coordinating role and exercise oversight over the preparation of a joint budget as well as any business plans required for conditional grants. The business plans can then be approved by the new council as soon as it has been constituted.

Transfers to municipalities will be gazetted in terms of the new municipal boundaries for the 2016/17 financial year.

2.3 Implications for assets and liabilities of municipalities

The changes to municipal boundaries are published by the MECs for local government in provincial gazettes in terms of section 12 of the Municipal Structures Act, 1998 (Act No 117 of 1998)(LGMSA). Section 14 of this Act regulates the effects that changes to municipal boundaries will have on existing municipalities. It also stipulates that the section 12 notice issued by the MEC for local government must provide for:

- The disestablishment of a municipality (or part of a municipality);
- The vacation of office by councilors of the existing municipality;
- The transfer of staff from the existing municipality to the superseding municipality (this must be done in accordance with labour legislation);
- The transfer of assets, liabilities and administrative and other records from the existing municipality to the superseding municipality (creditors of the existing municipality must be paid by the new municipality); and
- The extent to which existing by-laws will still apply.

The 2016/17 municipal budget preparation must make provision for any changes contained in these section 12 notices. The outgoing Council will as a result still be responsible for the preparation and conclusion of the Annual Financial Statements and the audit process.

3. The South African economy and inflation targets

The 2015 Medium Term Budget Policy Statement notes that the global economic outlook has been weaker than anticipated. Growth in developing economies has moderated in response to lower commodity prices, subdued domestic demand and reduced capital inflows. Growth in some developed economies has offset this slowdown. The South African economy is expected to grow by 1.5 per cent in 2015, 1.7 per cent in 2016 and 2.6 per cent in 2017. Domestic inflation is lower, largely as a result of declining oil prices. However, the depreciation of the Rand and the current drought gripping many parts of the country, however, pose some risk to the inflation outlook. Furthermore the electricity supply shortages pose the largest domestic risk to growth.

Persistent high unemployment remains one of South Africa's most pressing challenges. Difficult trading conditions and low business confidence levels have limited hiring during 2015. The formal sector lost 76 000 jobs, with sharp declines in manufacturing and construction, as well as community, social and personal services.

These economic challenges will continue to pressurise municipal revenue generation and collection hence a conservative approach is advised for projecting revenue. These circumstances make it essential for municipalities to reprioritise expenditure and implement stringent cost-containment measures.

Municipalities must take the following macro-economic forecasts into consideration when preparing their 2016/17 budgets and MTREF.

Table 1: Macroeconomic performance and projections, 2014 - 2018

Fiscal year	2014/15	2015/16	2016/17	2017/18	2018/19
	Actual	Estimate	Forecast		
CPI Inflation	5.6%	5.5%	6.0%	5.8%	5.8%

Source: Medium Term Budget Policy Statement 2015

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

4. Key focus areas for the 2016/17 budget process

4.1 Local government conditional grants and additional allocations

The purpose of the conditional grants is to deliver on national government priorities relating to service delivery. Additional funding is allocated in the form of unconditional allocations such as the equitable share and the sharing of the general fuel levy. The main purpose of the equitable share is to fund the provision of free basic services to the poor.

The 2015 Medium Term Budget Policy Statement indicates that over the 2016 MTEF period, transfers to local government total R350.6 billion, with 59.5 per cent transferred as unconditional allocations and the rest as conditional grants. The division of available funds to local government have increased to R106.9 billion or 9.2 per cent of the national revenue for 2016/17. These funds are expected to increase to R128.4 billion by 2018/19.

Municipalities are advised to use the indicative numbers as set out in the 2015 Division of Revenue Act to compile their 2016/17 MTREF. In terms of the outer year (2018/19 financial year), it is proposed that municipalities conservatively limit funding allocations to the indicative numbers as proposed in the 2015 Division of Revenue Act for 2017/18. The DoRA is available at <http://www.treasury.gov.za/legislation/acts/2015/Default.aspx>

It is imperative that municipalities reflect the conditional grant allocations as per the 2016 Division of Revenue Bill once available, and plan effectively to utilise these allocations appropriately so as to avoid requesting roll-overs.

Changes to local government allocations

- The *local government equitable share* is being increased by R6 billion over the MTEF to provide some relief for the impact of increasing costs of bulk water and electricity and rapid growth in households.
- The *municipal demarcation transition grant* allocation is being increased to subsidise the additional administrative costs in respect of the re-demarcations. This includes increased allocations for demarcations approved in 2013 and allocations for demarcations approved in 2015.
- The *municipal systems improvement grant* will become an indirect grant so that it can support more strategic capacity building interventions at municipalities. The initiatives funded from this grant will be aligned to the Back-to-Basics strategy and the Department of Cooperative Governance and the National Treasury will jointly decide on the details of how this programme will work.
- The *municipal human settlements capacity grant* was introduced in 2014/15 to facilitate the development of capacity to manage human settlements programmes in anticipation of the assignment of the housing function to cities. However, there is no longer a need for this standalone grant as the assignment process was subsequently suspended indefinitely. The grant will be terminated in 2016/17. Cities will be allowed to use 3 per cent of the *urban settlements development grant* to improve their capacity with regard to the built-environment functions.
- The indirect *bucket eradication programme grant* was due to end in 2015/16 but will be extended to 2016/17 to complete the eradication of bucket sanitation systems in formal residential areas. Sanitation upgrading and bucket system eradication in informal areas will continue to be funded through the *urban settlements development grant*, *human settlements development grant* and *municipal infrastructure grant*.

Reforms to local government fiscal framework

The second phase of the collaborative review of the local government infrastructure grant system led by the National Treasury has been concluded. Several changes will be introduced over the 2016 MTEF period to streamline these grants and improve the value and sustainability of associated investments. Proposed reforms to be introduced from 2016 include:

- Enabling the use of funds for the renewal, refurbishment and rehabilitation of existing infrastructure, alongside asset management systems to plan and prioritise maintenance;

- Reforming the public transport network grant to support financially sustainable transit networks in large cities by using a formula to allocate the grant, thereby giving cities a clear financial envelope within which to plan;
- Consolidating urban grants over the MTEF to tackle challenges in the built environment;
- Rationalising grants to reduce complexity and administrative burdens. Several water and sanitation grants are being merged;
 - The *municipal water infrastructure grant*, the *water services operating subsidy grant* and the *rural households infrastructure grant* will be merged into a single grant that will be targeted at reticulation and on-site-solutions in low capacity municipalities.
- Introducing greater differentiation between urban and rural areas. Secondary cities in particular will see changes to their planning requirements.

National Treasury has initiated a process of reviewing development charges. A national draft policy framework on development charges has been developed and processes are underway to consult on the policy. The consultations will convene early next year. More detailed information on these consultation processes will be provided in due course. For more information in this regard, you can contact Ms Judy Mboweni at Judy.Mboweni@treasury.gov.za or Ms Mmachuene Mpyana at Mmachuene.Mpyana@treasury.gov.za.

4.2 Reporting indicators

The National Treasury has engaged in a process of rationalising the reporting regime for the eight metropolitan municipalities with an aim to reduce the reporting burden whilst also creating a pool of indicators that will enable government to monitor progress on the outcomes and impact of municipal spending. This process has progressed significantly with regards to the outcomes and impact indicators whilst the rationalisation of the inputs, activities and output indicators is still undergoing rigorous consultations. The metropolitan outcomes and impact indicators are linked to the Built Environment Performance Plans (BEPPs) and therefore the Integrated City Development Grant (ICDG); whereas the inputs, outputs and activities indicators are linked directly to the Service Delivery Budget Implementation Plan (SDBIP) only as it relates to the built environment. When finalised, these indicators will assist the process of standardising the SDBIP.

The functional outcomes indicators are due to be finalised for the next budget cycle whilst the work on the input and output indicators is ongoing. Over time these reforms will also be extended to non-metropolitan municipalities.

4.3 Municipal Standard Chart of Accounts (mSCOA)¹

The *mSCOA* Regulations apply to all municipalities and municipal entities with effect from 1 July 2017 and only eleven months remain for preparation and implementation readiness as the 2017/18 MTREF budgets will all have to be aligned to *mSCOA*.

The implementation of *mSCOA* must be considered a business reform and it requires a significant change in municipal business processes; and it involves systems conversion and/

¹ The Minister of Finance promulgated the Municipal Regulations on a Standard Chart of Accounts in government gazette Notice No. 37577 on 22 April 2014.

or re-implementation. Further, *mSCOA* requires organisational change as it is not only a financial reform that is being introduced.

The 2016/17 tabled budget or consolidated budget must include an annexure containing the municipality's *mSCOA* project plan and progress to date.

National Treasury has a dedicated website to support municipalities with their *mSCOA* readiness efforts. The following information is available:

- The current *mSCOA* classification framework;
- The *mSCOA* Project Summary Document;
- All Municipal *SCOA* Circulars, providing hands-on support on how to undertake preparation and implementation;
- Integrated Consultative Forum (ICF) – documentation and presentations of the *mSCOA* piloting process; and
- The Frequently Asked Questions Database (FAQ Database) – where previously asked questions and responses can be accessed and new questions may be logged.

For more information on *mSCOA* and other benefits of the reform, visit: <http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx>

5. The revenue budget

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges at levels that reflect an appropriate balance between the interests of poor households, other customers and ensuring the financial sustainability of the municipality. For this reason municipalities ***must justify in their budget documentation all increases in excess of the 6.0 per cent*** projected inflation target in the budget narratives.

Municipalities are not maximising the revenue generation potential of their revenue base and this, together with the increasing unemployment and the decline in economic growth means that there is just not sufficient municipal own revenue to supplement the national funding sources to local government.

It is therefore necessary for municipalities to ensure that their tariffs are adequate to, at the minimum, cover the costs of bulk services and also to ensure that all properties are correctly billed for property rates and all services rendered.

5.1 Eskom bulk tariff increases

In terms of the Multi Year Price Determination (MYPD) for Eskom's tariffs approved by the National Energy Regulator of South Africa (NERSA), a tariff increase of 8 per cent has been approved for the 2016/17 financial year. However, Eskom has applied to NERSA to use tariff increases in 2016/17 to compensate for an under-recovery of R22.8 billion in 2013/14. Such an application is allowed in terms of the NERSA's methodology for calculating the MYPD. A similar Eskom application was approved by NERSA for 2015/16.

NERSA is now in the process of reviewing this application. Until a decision on Eskom's application is announced by NERSA, municipalities are advised to base their planning on the 8 per cent increase already approved by NERSA. However, municipalities should be aware that it is possible that a higher tariff increase could be approved and take this possibility into account in their planning for the 2016/17 MTREF. NERSA expects to make a decision on Eskom's application by February 2016.

Municipalities are urged to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving financial sustainability.

5.2 Water and sanitation tariff increases

Municipalities should consider the full cost of rendering the water and sanitation services when determining tariffs related to these two services. If the tariffs are low and result in the municipality not recovering their full costs, the municipality should develop a pricing strategy to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time. Should this not be the case, municipalities will be required to clearly articulate the reasons and remedial actions to rectify this position in their budget document. It is expected that the tariffs will differ per municipality depending on the bulk water tariff increases charged by their respective water boards.

Municipalities are urged to design an Inclining Block Tariff (IBT) structure that is appropriate to its specific circumstances, and ensures an appropriate balance between 'low income customers' and other domestic, commercial and business customers, and the financial interests of the municipality. While considering this structure, municipalities are advised to evaluate if the IBT system will be beneficial to them depending on consumption patterns in their areas.

In light of the current drought being experienced across large parts of the country, and to mitigate the need for water tariff increases, municipalities must put in place appropriate strategies to limit water losses to acceptable levels. In this regard municipalities must ensure that water used by its own operations is charged to the relevant service, and not simply attributed to water losses.

6. Funding choices and management issues

Municipalities should carefully consider the costs associated with service delivery while keeping in mind affordability and inflation when setting revenue raising measures. Once again, approving tariffs that are far below levels representing cost of providing the services would negatively impact on the financial sustainability of municipalities.

Furthermore municipalities must consider the following when compiling their 2016/17 MTREF budgets:

- improving the effectiveness of revenue management processes and procedures; and
- pay special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities.

6.1 Employee related costs

The South African Local Government Bargaining Council recently entered into a three-year *Salary and Wage Collective Agreement* for the period 01 July 2015 to 30 June 2018. The agreement reached is as follows:

- 2015/16 Financial Year – 7 per cent
- 2016/17 Financial Year – average CPI (Feb 2015 – Jan 2016) + 1 per cent
- 2017/18 Financial Year – average CPI (Feb 2016 – Jan 2017) + 1 per cent

Municipalities are advised to use this Salary and Wage Agreement preparing their 2016/17 MTREF budgets.

6.2 Remuneration of councilors

Municipalities are advised to budget for the actual costs approved in accordance with the gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published annually by the Department of Cooperative Governance.

6.3 Service level standards

In spite of a broad guideline on the minimum service standards having been issued with MFMA Circular No. 75, many municipalities did not incorporate the service level standards in their respective budget documentation nor submit these to National Treasury. All municipalities are again advised to formulate service level standards which must form part of their 2016/17 MTREF tabled budget documentation. The said service level standards must, together with the budgets, tabled before their respective municipal councils by no later than 31 March 2016.

It is noted that the same service level standards do not apply across all municipalities. Therefore, the hereon provided outline is intended to guide municipalities with the development of their respective service level standards. The outline can be amended to suit the requirements of individual municipalities. Municipalities are advised to also consider other guideline documents issued by other institutions available on the link indicated below.

A framework was developed as an outline to assist municipalities in finalising their service level standards. The outline can be accessed on the link below:

<http://mfma.treasury.gov.za/Circulars/Documents/Forms/AllItems.aspx?RootFolder=/Circulars/Documents/Circular 75 - 2015 MTREF&FolderCTID=&View={06AB24E7-1C64-4A80-A0FA-273E6A829094}>

6.4 Outcomes of the Financial Management Capability Maturity Model (FMCMM)

In prioritising the upcoming MTREF decisions, municipalities should review the detailed analysis of the results of the FMCMM assessments with the results of the 32 financial ratios that provide a holistic picture of the financial capability and sustainability of the municipality. These reports have been communicated to all municipalities and should be read in conjunction with the most recent budget reviews and feedback provided by National Treasury and Provincial Treasuries. Key aspects requiring attention should be discussed with the municipal council and management so that they can be prioritised for resource allocation and implementation.

Comments on these assessments and any other related legislative advice on the MFMA can be submitted to the MFMA helpdesk facility at: MFMA@treasury.gov.za

6.5 Hand-over reports for the newly elected council

Each municipal manager, working together with the Chief Financial Officer (CFO) and senior managers, is encouraged to prepare a hand-over report that can be tabled at the first meeting of the newly elected council. The aim of this hand-over report is to provide the new councils important orientation information regarding the municipality, the state of its finances, service delivery and capital programme, as well as key issues that need to be addressed.

It is proposed that the hand-over report should include:

- An overview of the demographic and socio-economic characteristics of the municipality;

- An overview of the organisational structure of the municipality, with the names and numbers of senior managers;
- An overview of key municipal policies that councillors need to be aware of, and where they can obtain the full text of such policies;
- An overview of issues that still need to be addressed in relation to the municipality's turnaround strategy;
- An overview of the municipality's financial health, with specific reference to:
 - Its cash and investments, and its funding of commitments (Table A8);
 - Cash coverage of normal operations (see Supporting Table SA10);
 - Creditors outstanding for more than 30 days, along with reasons for delayed settlement;
 - Current collection levels and debtors outstanding for more than 30 days; and
 - Extent of existing loans, and associated finance and redemption payments.
- The municipality's 2014/15 audit outcome, and its strategy to address audit issues;
- An overview of the provision of basic services, including plans to address backlogs;
- An overview of the state of the municipality's assets, with particular reference to the asset management plan, and repairs and maintenance requirements;
- A list of the main infrastructure projects planned for the 2016/17 budget and MTREF;
- A list of key processes requiring council input over the next six months, e.g. revision of the IDP, approval of specific policies etc. and
- Any other information deemed to be important.

In addition to the hand-over report, each new councillor should be given the municipalities' revised IDP, the adopted 2016/17 budget (if already passed), the mid-year budget and performance assessment report for 2015/16, and the latest monthly financial statement, and the annual report for 2014/15.

Municipal managers should submit their municipality's hand-over report to the relevant provincial department responsible for local government, provincial treasuries, the Department of Co-operative Governance (DCoG) and to National Treasury.

7. Conditional Grant Transfers to Municipalities

7.1 Pledging of conditional grants

Read together with paragraph 4.5 of MFMA Circular No. 51, all conditions for the considerations of the conditional grant pledge should be aligned with the provisions of section 46 of the MFMA regarding long-term borrowing.

While pledging of conditional grants assists in accelerating capital projects, municipalities are cautioned that pledging will only be approved for projects that have gone through a proper planning process as well as meeting the criteria for pledging as per MFMA Circular No. 51.

8. The Municipal Budget and Reporting Regulations

National Treasury has released Version 2.8 of Schedule A1 (the Excel Formats). This version incorporates minor changes (see Annexure A). Therefore **ALL** municipalities **MUST** use this version for the preparation of their 2016/17 Budget and MTREF. Download Version 2.8 of Schedule A1 by clicking [HERE](#)

The Municipal Budget and Reporting Regulations, formats and associated guides are available on National Treasury's website at:

<http://mfma.treasury.gov.za/RegulationsandGazettes/Pages/default.aspx>

8.1 Assistance with the compilation of budgets

If municipalities require advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury official as follows:

	Responsible NT officials	Tel. No.	Email
Eastern Cape	Templeton Phogole	012-315 5044	Templeton.Phogole@treasury.gov.za
	Matjatji Mashoeshoe	012-315 6567	Matjatji.Mashoeshoe@treasury.gov.za
Free State	Vincent Malepa	012-315 5539	Vincent.Malepa@treasury.gov.za
	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
	Katlego Mabiletsa	012-395 6742	Katlego.Mabiletsa@treasury.gov.za
Gauteng	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
	Nomxolisi Mawulana	012-315 5460	Nomxolisi.Mawulana@treasury.gov.za
KwaZulu-Natal	Bernard Mokgabodi	012-315 5936	Bernard.Mokgabodi@treasury.gov.za
	Johan Botha	012-315 5171	Johan.Botha@treasury.gov.za
Limpopo	Una Rautenbach	012-315 5700	Una.Rautenbach@treasury.gov.za
	Sifiso Mabaso	012-315 5952	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Jordan Maja	012-315 5663	Jordan.Maja@treasury.gov.za
	Anthony Moseki	012-315 5174	Anthony.Moseki@treasury.gov.za
Northern Cape	Willem Voigt	012-315 5830	Willem.Voigt@treasury.gov.za
	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
North West	Sadesh Ramjathan	012-315 5101	Sadesh.Ramjathan@treasury.gov.za
	Makgabo Mabotja	012-315 5156	Makgabo.Mabotja@treasury.gov.za
Western Cape	Vuyo Mbunge	012-315 5661	Vuyo.Mbunge@treasury.gov.za
	Kevin Bell	012-315 5725	Kevin.Bell@treasury.gov.za
Technical issues with Excel formats	Elsabe Rossouw	012-315 5534	lgdataqueries@treasury.gov.za

National Treasury, together with the provincial treasuries, will undertake a compliance check and, where municipalities have not provided complete budget information, the municipal budgets will be returned to the mayors and municipal managers of the affected municipalities for the necessary corrections. Municipal managers are reminded that the annual budget must be accompanied by a 'quality certificate' in accordance with the format as set out in item 31 of Schedule A in the Municipal Budget and Reporting Regulations.

The National Treasury would like to emphasise that where municipalities have not adhered to the Municipal Budget and Reporting Regulations, ***those municipalities will be required to go back to the municipal council and table a complete budget document aligned to the requirement of the Municipal Budget and Reporting Regulations.***

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year reports for both the parent municipality and its entity or entities in that they to produce:

- An annual budget, adjustments budget and monthly financial reports for the parent municipality in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial reports for the parent municipality and all its municipal entities in the relevant formats.

The A Schedule that the municipality submits to National Treasury must be a consolidated budget for the municipality (plus entities) and not the budget of the parent municipality only.

9. Budget process and submissions for the 2016/17 MTREF

9.1 Submitting budget documentation and schedules for 2016/17 MTREF

To facilitate oversight of compliance with the Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that **immediately** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in both printed and electronic formats. If the annual budget is tabled to council on 31 March 2016, the final date of submission of the electronic budget documents and corresponding electronic returns is **Friday, 01 April 2016**. The deadline for submission of hard copies including council resolution is **Friday, 8 April 2016**.
- Section 24(3) of the MFMA, read together with regulation 20(1), requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury **within ten working days** after the council has approved the annual budget. If the council only approves the annual budget on 30 June 2016, the final date for such a submission is **Thursday, 14 July 2016**, otherwise an earlier date applies.

The municipal manager must submit:

- the budget documentation as set out in Schedule A (version 2.8) of the Municipal Budget and Reporting Regulations, including the main Tables (A1 - A10) and ALL the supporting tables (SA1 – SA37) in both printed and electronic formats;
- the draft service delivery and budget implementation plan in both printed and electronic format;
- the draft integrated development plan;
- the council resolution;
- signed Quality Certificate as prescribed in the Municipal Budget and Reporting Regulations; and
- schedules D, E and F specific for the entities.

Municipalities are required to send electronic versions of documents and the A1 schedule to lgdocuments@treasury.gov.za.

If the budget documents are too large to be sent via email (exceeds 4MB) please submit to lgbigfiles@gmail.com. Any problems experienced in this regard can be addressed with Elsabe Rossouw at Elsabe.Rossouw@treasury.gov.za.

Municipalities are required to send printed submissions of their budget documents and council resolution to:

For couriered documents

Ms Linda Kruger
National Treasury
40 Church Square
Pretoria, 0002

For posted documents

Ms Linda Kruger
National Treasury
Private Bag X115
Pretoria, 0001

In addition to the above mentioned budget documentation, metropolitan municipalities must submit the Built Environment Performance Plan (BEPP) tabled in council on 31 March 2016 to Yasmin.coovadia@treasury.gov.za. If the BEPP documents are too large to be sent via email (exceeds 4MB) please submit to yasmin.coovadia@gmail.com or send to Yasmin Coovadia via Dropbox; any problems experienced in this regard can be addressed with

Yasmin.Coovadia@treasury.gov.za. Hard copies of the BEPP may be sent to Yasmin Coovadia, National Treasury, 3rd floor 40 Church Square, Pretoria, 0002 or Private Bag X115, Pretoria, 0001.

9.2 Budget reform returns to the Local Government Database for publication

For publication purposes, municipalities are still required to use the Budget Reform Returns to upload budget and monthly expenditure to the National Treasury Local Government Database. All returns are to be sent to lgdatabase@treasury.gov.za. Municipalities are requested to submit returns for both the draft budget and the final adopted budget. This will assist the National and provincial treasuries with the annual benchmark process.

The aligned electronic returns may be downloaded from National Treasury's website at the following link: http://mfma.treasury.gov.za/Return_Forms/Pages/default.aspx.

9.3 Publication of budgets on municipal websites

In terms of section 75 of the MFMA, all municipalities are required to publish their tabled budgets, adopted budgets, annual reports (containing audited annual financial statements) and other relevant information on the municipality's website. This will aid in promoting public accountability and good governance.

All relevant documents mentioned in this circular are available on the National Treasury website, <http://mfma.treasury.gov.za/Pages/Default.aspx>. Municipalities are encouraged to visit it regularly as documents are regularly added / updated on the website.

Contact



Post Private Bag X115, Pretoria 0001
Phone 012 315 5009
Fax 012 395 6553
Website <http://www.treasury.gov.za/default.aspx>

JH Hattingh
Chief Director: Local Government Budget Analysis
07 December 2015

Annexure A – Changes to Schedule A1 – the ‘Excel formats’

As noted above, National Treasury has released Version 2.8 of Schedule A1 (the Excel Formats). It incorporates the following changes:

No.	Sheet	Amendment	Reason
1	A10	Cost of free basic services	Improve reporting of cost of free basic services provided including in informal settlements.
2	SA1	Revenue foregone	Improve reporting on revenue foregone and cost of free basic services.
3	SA9	Provision of free basic services	To provide detailed breakdown of free basic services which links to A10.

Annexure B – Municipalities affected by redeterminations

Redeterminations Finalised by the MDB in 2013 and 2015

Province	Affected Local Municipalities	Impact
Redeterminations finalised in 2013		
Gauteng	Randfontein and Westonaria	Reduction of 1 Municipality
KwaZulu - Natal	Vulamehlo and Umdoni	Reduction of 1 Municipality
	Hlabisa and The Big 5 False Bay	Reduction of 1 Municipality
	Umtshezi and Imbabazane	Reduction of 1 Municipality
	Ezingoleni and Hibiscus Coast	Reduction of 1 Municipality
	Emnambithi/Lady smith and Indaka	Reduction of 1 Municipality
	Kwa Sani and Ingwe	Reduction of 1 Municipality
	Ntambanana, Mthonjaneni and uMhlathuze	Reduction of 1 Municipality . (Ntambanana disestablished with 8 wards. Wards 1-4 incorporated into Mthonjaneni; wards 5-8 incorporated into uMhlathuze)
Redeterminations finalised in 2015		
KwaZulu - Natal	Mooi Mpofana and Umvoti	No reduction in number of Municipalities. Portion of Mooi Mpofana (Cadham voting district) incorporated into Umvoti.
Mpumalanga	Mbombela and Umjindi	Reduction of 1 Municipality
Free State	Mangaung and Naledi	Reduction of 1 Municipality
North West	Ventersdorp and Tlokweng	Reduction of 1 Municipality
Northern Cape	Mier and //Khara Hais	Reduction of 1 Municipality
Limpopo	Mutale, Thulamela, Makhado and Musina	Reduction of 1 Municipality (Mutale disestablished. Parts of Mutale are incorporated into Thulamela and Musina. Parts of Makhado and Thulamela are incorporated to form a new municipality .)
	New Municipality	Parts of Makhado and Thulamela are incorporated to form a new municipality .
	Aganang, Blouberg, Molemole and Polokwane	Reduction of 1 Municipality . (Aganang disestablished; parts of Aganang incorporated into Blouberg, Molemole and Polokwane).
	Fetakgomo and Greater Tubatse	Reduction of 1 Municipality
	Modimolle and Mookgopong	Reduction of 1 Municipality
Eastern Cape	Gariep and Maletswai	Reduction of 1 Municipality
	Nxuba and Nonkobe	Reduction of 1 Municipality
	Inkwanca, Tsolwana and Lukanji	Reduction of 2 Municipalities (all 3 amalgamated into 1)
	Camdeboo, Baviaans and Ikwezi	Reduction of 2 Municipalities (all 3 amalgamated into 1)

Annexure C – Previous MFMA Circulars

Budget management issues dealt with in previous MFMA Circulars

Municipalities are reminded to refer to MFMA Circulars 48, 51, 54, 55, 66, 67 and 70 with regards to the following issues:

1. Mayor's discretionary funds and similar discretionary budget allocation – National Treasury regards allocations that are not designated for a specific purpose to be bad practice and discourage them (refer to MFMA Circular 51).
2. Unallocated ward allocations – National Treasury does not regard this to be a good practice, because it means that the tabled budget does not reflect which ward projects are planned for purposes of public consultation and council approval (refer to MFMA Circular 51).
3. New office buildings – Municipalities are required to send detailed information to National Treasury if they are contemplating building new main office buildings (refer to MFMA Circular 51).
4. Virement policies of municipalities – Municipalities are reminded of the principles that must be incorporated into municipal virements policies (refer to MFMA Circular 51).
5. Providing clean water and managing waste water – Municipalities were reminded to include a section on 'Drinking water quality and waste water management' in their budget document (refer to MFMA Circular 54).
6. Renewal and repairs and maintenance of existing assets – Allocations to repairs and maintenance, and the renewal of existing infrastructure must be prioritised. Municipalities must provide detailed motivations in their budget documentation if allocations do not meet the required benchmarks set out in MFMA Circular 55 and 66.
7. Credit cards and debit cards linked to municipal bank accounts are not permitted – On 02 August 2011 National Treasury issued a directive to all banks informing them that as from 01 September 2011 they are not allowed to issue credit cards or debit cards linked to municipal bank accounts (refer to MFMA Circular 55).
8. Water and sanitation tariffs must be cost reflective - refer to MFMA Circular 66.
9. Solid waste tariffs – refer to MFMA Circular 70.
10. Variances between 4th Quarter section 71 results and annual financial statements – refer to Circular 67.
11. Additional In-Year reporting requirements – refer to MFMA Circular 67.
12. Appropriation statement (reconciliation: budget and in-year performance)- reference is made to circular 67. It came to the attention of National Treasury that a number of municipalities did not include the appropriation statement as part of their 2012/13 or 2013/14 annual financial statement. In terms of the Standards of GRAP 24 on the Presentation of Budget Information in Financial Statements, municipalities are required to present their original and adjusted budgets against actual outcome in the annual financial statements. This is considered an appropriation statement and the comparison between the budget and actual performance should be a mirror image of each other as it relates to the classification and grouping of revenue and expenditure as has been the case in a national and provincial context. This statement is subject to auditing and accordingly supporting documentation would be required to substantiate the compilation of this statement.
13. Eliminating non-priority spending – The 2013 MTBPS emphasised the need for government to step-up its efforts to combat waste, inefficiency and corruption (refer to MFMA circular 70).
14. Council oversight over the budget process – refer to MFMA Circular 70.

Conditional grant issues dealt with in previous MFMA Circulars

Municipalities are reminded to refer to MFMA Circulars 48, 51, 54, 55 and 67 with regards to the following issues:

1. Accounting treatment of conditional grants: Municipalities are reminded that in accordance with accrual accounting principles, conditional grants should only be treated as 'transfers recognized' revenue when the grant revenue has been 'earned' by incurring expenditure in accordance with the conditions of the grant.
2. VAT on conditional grants: SARS has issued a specific guide to assist municipalities meeting their VAT obligations – **VAT 419 Guide for Municipalities**. To assist municipalities accessing this guide it has been placed on the National Treasury website at: <http://mfma.treasury.gov.za/Guidelines/Pages/default.aspx>
3. Interest received and reclaimed VAT in respect of conditional grants: Municipalities are reminded that in MFMA Circular 48, National Treasury determined that:
 - Interest received on conditional grant funds must be treated as 'own revenue' and its use by the municipality is not subject to any special conditions; and
 - 'Reclaimed VAT' in respect of conditional grant expenditures must be treated as 'own revenue' and its use by the municipality is not subject to any special conditions.
4. Appropriation of conditional grants that are rolled over – As soon as a municipality receives written approval from National Treasury that its unspent conditional grants have been rolled-over it may proceed to spend such funds (refer to MFMA Circular 51 for other arrangements in this regard).
5. Pledging of conditional grant transfers – the 2015 Division of Revenue Bill contained a provision that allows municipalities to pledge their conditional grants. The end date for the pledges is extended to 2017/18. The process of application as set out in MFMA Circular 51 remains unchanged.
6. Separate reporting for conditional grant roll-overs – National Treasury has put in place a separate template for municipalities to report on the spending of conditional grant roll-overs. Municipalities are reminded that conditional grant funds can only be rolled-over once, so if they remain unspent in the year in which they were rolled-over they MUST revert to the National Revenue Fund.
7. Payment schedule – National Treasury has instituted an automated payment system of transfers to municipalities in order to ensure appropriate safety checks are put in place. Only the primary banking details verified by National Treasury will be used for effecting transfers.
8. Conditional grant transfers/payments, the responsibilities of transferring and receiving authorities and the criteria for the rollover of conditional grants – It is important that the transfers made to municipalities' are transparent, and properly captured in the municipalities' budgets. MFMA Circular no: 67 in this regard refers. The criterion for the rollover of conditional grants is stipulated in MFMA Circular no: 51.

MBRR issues dealt with in previous MFMA Circulars

Municipalities are reminded to refer to MFMA Circulars 48, 51, 54, 55 with regards to the following issues:

1. Budgeting for revenue and 'revenue foregone' – The 'realistically anticipated revenues to be collected' that must be reflected on the Budgeted Statement of Financial Performance (Tables A2, A3 and A4) must exclude 'revenue foregone'. The definition

of 'revenue foregone' and how it is distinguished from 'transfers and grants' is explained in MFMA Circular 51.

2. Preparing and amending budget related policies – Information on all budget related policies and any amendments to such policies must be included in the municipality's annual budget document (refer to MFMA Circular 54).

3. 2013/14 MTREF Funding Compliance Assessment – All municipalities were required to perform the funding compliance assessment outlined in *MFMA Funding Compliance Guideline* and to include the relevant information outlined in MFMA Circular 55 in their 2015/16 budgets (refer to MFMA Circular 55).

4. Tabling a funded budget - It is critical that municipalities adopt and implement funded budgets as per Section 18 of the MFMA. Tables A7 and A8 which if completed correctly by the municipality, it will provide most of the information required to evaluate whether a municipality's operating and cap



NATIONAL TREASURY

MFMA Circular No. 80

Municipal Finance Management Act No. 56 of 2003

Municipal Financial Systems and Processes requirements in support of the Municipal Standard Chart of Accounts (mSCOA).

This is a follow-up Circular to MFMA Circular No. 57 that replaces MFMA Circular 57 (financial systems and processes) and updates municipalities and municipal entities on the review of local government financial systems and business processes subsequent to the 'piloting' of the mSCOA classification framework. It is important to read this Circular in conjunction with MFMA Circular No. 57, all the Municipal SCOA Circulars, and all documentation posted on the National Treasury website as it relates to mSCOA (i.e. project summary document, presentations of the mSCOA Integrated Consultative Forum etc.).

CONTENTS

1.	INTRODUCTION	2
2.	ACCOUNTABILITY FOR mSCOA IMPLEMENTATION AND COMPLIANCE.....	3
3.	RESEARCH INTO SYSTEMS OF FINANCIAL MANAGEMENT AND INTERNAL CONTROL – MFMA CIRCULAR NO. 57.....	5
4.	WHAT CONSTITUTES MINIMUM COMPLIANCE TO mSCOA – BUSINESS PROCESSES AND SYSTEM FUNCTIONALITY	6
5.	DETAIL BUSINESS PROCESS REQUIREMENTS AND ASSOCIATED SYSTEM FUNCTIONALITY	10
6.	COMMERCIAL-OFF-THE-SHELF TIER 1 INTEGRATED FINANCIAL MANAGEMENT SYSTEMS VERSUS LOCAL, BESPOKE AND THIRD PARTY SYSTEMS.....	11
7.	LEGISLATIVE FRAMEWORK – PROCUREMENT OF SYSTEMS OF FINANCIAL MANAGEMENT AND INTERNAL CONTROL.....	12
8.	TRANSVERSAL CONTRACT FOR THE SUPPLY OF AN INTEGRATED FINANCIAL MANAGEMENT AND INTERNAL CONTROL SYSTEM FOR LOCAL GOVERNMENT.....	13
9.	MFMA CIRCULAR NO. 57.....	15
	ANNEXURE A – LIST OF ALL MUNICIPALITIES AND THEIR RESPECTIVE SYSTEM VENDORS (SERVICE PROVIDERS) WHICH ACTIVELY PARTICIPATED AND CONTRIBUTED DURING THE mSCOA PILOTING PHASE.....	16

1. Introduction

National Treasury issued MFMA Circular No. 57 with a specific view to stabilise the overall systems of financial management and internal control operationally functional within municipalities; this position necessitated among others:

- Pending regulation of the Municipal Regulations on a Standard Chart of Accounts (*mSCOA*);
- Varying levels of deficiency in the functionality of systems of financial management and internal control which would in all probability impede the implementation of the Regulation on the Standard Chart of Accounts by municipalities; and
- Possibility that municipalities could in the interim be investing in systems of overall financial management and internal control that do not necessarily meet the minimum system functionality in support of a multi-dimensional chart as prescribed by the Municipal Regulations on a Standard of Accounts (*mSCOA*).

The Municipal Regulations on a Standard Chart of Accounts (*mSCOA*) was gazetted by the Minister of Finance on 22 April 2014. The National Treasury then commissioned *mSCOA* Project Phase 4 (Change Management and Piloting). Primary objectives of the piloting phase included:

- a) Piloting of the *mSCOA* classification framework in selected municipalities to refine the Segments and associated detail,
- b) Reviewing and assessing the existing system functionality of service providers operating within municipalities against the broader business requirements of the *mSCOA* Regulation; and
- c) Determining minimum system and business process requirements to effectively operate the multi-dimensional structure of *mSCOA* as envisaged and prescribed by the Regulation and address certain limitations with the implementation of the entire financial management accountability cycle.

The piloting phase of *mSCOA* Project Phase 4 has proved most useful in that detail transactional findings based on the actual piloting has provided for further refinement to the classification framework; since the publication of the Regulation on 22 April 2014, the chart has been revised four times giving rise to *mSCOA* Version 5.4. The National Treasury is in the process of updating Version 5.4 with slight amendments after which *mSCOA* Version 6 will be released and locked down for the first year (2017/18) transacting and auditing. It is anticipated that *mSCOA* Version 6 will be locked down within the next two months; changes between Version 5.4 and Version 6 are anticipated as minimum.

In addition to strengthening the classification framework to meet the transactional requirements of all municipalities, the piloting exercise has also provided an invaluable understanding of the current landscape of systems of financial management and internal control currently operationally functional within municipalities. This research has provided for a clear understanding of what is required from a system of financial management and internal control as it relates to technical and business process functionality in support *m*SCOA and the overall local government financial management accountability cycle.

Chapter 3 of the Municipal Regulations on a Standard Chart of Accounts provides that the Minister of Finance may determine minimum business processes and system requirements through issuing a gazette. This MFMA Circular provides guidance as it relates to these requirements as envisaged by Chapter 3 of the Regulation. Guidance supplied in this Circular will provide the basis for determining the minimum business and system requirements to gazette at a future date as envisaged in the Regulation.

This MFMA Circular therefore provides municipalities with guidance relating to:

- Accountability as it relates to *m*SCOA implementation;
- Outcome of the research into financial management and internal control systems;
- Minimum business processes and system requirements to ensure *m*SCOA compliancy and address business process requirements across the entire local government financial management accountability cycle; and
- The issuing of a request for proposals (RFP) for the appointment of service providers for an integrated financial management and internal control system for local government.

Annexure A provides a list of all municipalities and their respective system vendors (service providers) which actively participated and contributed during the piloting phase.

2. Accountability for *m*SCOA implementation and compliance

During the piloting process, the National Treasury's *m*SCOA Project Team experienced, to varying levels, a shift of accountability for *m*SCOA implementation. In some instances, municipalities would shift operational responsibility onto their system vendor; the inverse was also observed. Expectations also include that the National Treasury and provincial treasuries would facilitate the process on behalf of municipalities and even cover the costs associated with *m*SCOA implementation.

Municipalities are reminded that the National Treasury is constitutionally mandated to set norms and standards to ensure both transparency and internal control of the financial affairs of all three spheres of government. In addition, the National Treasury must execute against its constitutional monitoring and oversight role over municipalities as it relates to adherence and compliance to the legislative framework governing local government. While the National Treasury acknowledges that municipalities would require guidance with the implementation of a strategic financial management reform of this nature, and the National Treasury will continue to provide such, ***the municipality and municipal entity remains ultimately responsible and accountable to implement mSCOA across its organisation.*** In this regard, your attention is drawn to Chapter 5 (Responsibilities of Municipal Functionaries) of the mSCOA Regulation of which section 12 and 13 reads as follows:

“Responsibilities of municipal councils and boards of directors

12. The municipal council of a municipality and the board of directors of a municipal entity must take the necessary steps to ensure that these Regulations are implemented by the adoption of any resolutions, policies and budgetary provisions necessary for the implementation of these Regulations.

Responsibilities of accounting officers

13. The accounting officer of a municipality or municipal entity must take all necessary steps to ensure that these Regulations are implemented by at least—
- (a) delegating the necessary powers and duties to the appropriate officials;
 - (b) ensuring that the responsible officials have the necessary capacity by providing for training and ensuring that they attend training or workshops provided by the National Treasury;
 - (c) ensuring that the financial and business applications of the municipality or municipal entity have the capacity to accommodate the implementation of these Regulations and that the required modifications or upgrades are implemented; and
 - (d) submitting reports and recommendations to the municipal council or the board of directors, as the case may be, that provide for the adoption of any resolutions, policies and budgetary provisions necessary for the implementation of these Regulations.”

In terms of compliancy with the Regulation, the ordinary regulatory and oversight bodies (i.e. the Auditor General of South Africa, National Treasury, DCoG, South African Revenue Service, Department of Water Affairs, National Energy Regulator of South Africa, etc.) will

review the municipality's and municipal entity's embrace of *mSCOA* as part of their normal oversight and monitoring activities.

Notwithstanding the accountability that vests with municipalities themselves to ensure compliance with the entire local government legislative framework, including the Municipal Regulations on a Standard Chart of Accounts, many municipalities have requested assistance from the National Treasury and respective provincial treasuries in dealing with some technical aspects of *mSCOA* implementation. Challenges and concerns relating to financial management and internal control systems have undoubtedly been top of the list. **While it is acknowledged that financial management and systems of internal control is a key consideration with the implementation of the *mSCOA*, it is only one aspect. *mSCOA* implementation cannot be considered solely an ICT or finance reform; on the contrary it is a complete organisation reform and must be approached as such for it to be successfully implemented at a municipal level.**

3. Research into Systems of Financial Management and Internal Control – MFMA Circular No. 57

MFMA Circular No. 57 was released on 20 October 2011 with the primary objective of informing municipalities of the investigation into local government financial systems and processes and to outline the procedure that municipalities need to comply with when considering a replacement of their core financial systems. Importantly, MFMA Circular No. 57 was issued 31 months prior to the gazetting of the Municipal Regulations on Standard Chart of Accounts (22 April 2014) as the National Treasury understood that the *mSCOA* would have to be supported by appropriate systems of financial management and internal control. This was considered a prerequisite for *mSCOA* implementation and consequently MFMA Circular No.

57 placed limitations on the replacement of systems of financial management and internal control.

Section 5 of the MFMA enables National Treasury to investigate any system of financial management and internal control in a municipality or municipal entity and recommend appropriate improvements. Since the release of MFMA Circular No. 57, the National Treasury has continued with the commissioning of a project into the research and assessment of various financial applications and related software; this project has culminated into five years' worth of research and development. Unlike the national and provincial sphere, local government has its own peculiarities, such as operating a host of different systems of financial management and internal control. In dealing with this challenge it was considered appropriate

to review not only the system functionality as it relates to *mSCOA* compliancy, but also the business processes required to optimally manage the business of local government.

The outcome of this research, which was aligned and informed by the 'piloting' of the *mSCOA* classification, has resulted in a comprehensive list of business processes that should be supported by system functionality (systems of financial management and internal control). **Annexure B (System Specifications)** to this Circular includes a detailed list of these business processes and will be further explained in this MFMA Circular. **Importantly, municipalities need to evaluate the functionality of their current financial management and internal control systems against these business processes and technical specifications. If the outcome of the assessment is favourable, then municipalities would not necessarily need to replace their current financial management and internal control system. The service provider would however have to provide the municipality with guarantees to this effect.** Municipalities are also urged to make use of the guidance supplied in *Municipal SCOA Circular 2* in undertaking this assessment.

4. What Constitutes Minimum Compliance to *mSCOA* – Business Processes and System Functionality

Municipalities must ensure when examining the functionality of their current systems of financial management and internal control that it meets the minimum business processes and system requirements as stated in the objective of the *mSCOA* Regulation, namely; a system of financial management and internal control capable of providing for the uniform recording and classification of both **municipal budget and financial information at a transaction level** in the prescribed municipal standard chart of accounts, for both municipalities and municipal entities.

Systems of financial management and internal control must, as a minimum, comply with these explicit business process requirements as contained in the *mSCOA* Regulation, in that it:

- a) **Must provide** for the hosting of the *mSCOA* structure and associated detail as contained in the seven defined Segments;
- b) **Be able to** accommodate and operate the classification framework across all seven segments at a transactional level as defined in the associated detail to the Segments;

- c) **Must provide** for the data extraction functionality as per the segmented transactional string and seamless upload to the Local Government Database as hosted by the National Treasury;
- d) **May not** apply methodologies of data mapping or data extrapolation¹ to provide for the segmented transactional data string at a transactional level above as explained in point c) above;
- e) **Must provide** for full seamless integration between the core financial system representing the general ledger, and any third party system with a direct impact on the general ledger i.e. human resource and payroll third party systems, billing etc.; and
- f) **Must have** access to hardware that is sufficient to run the required software solution.

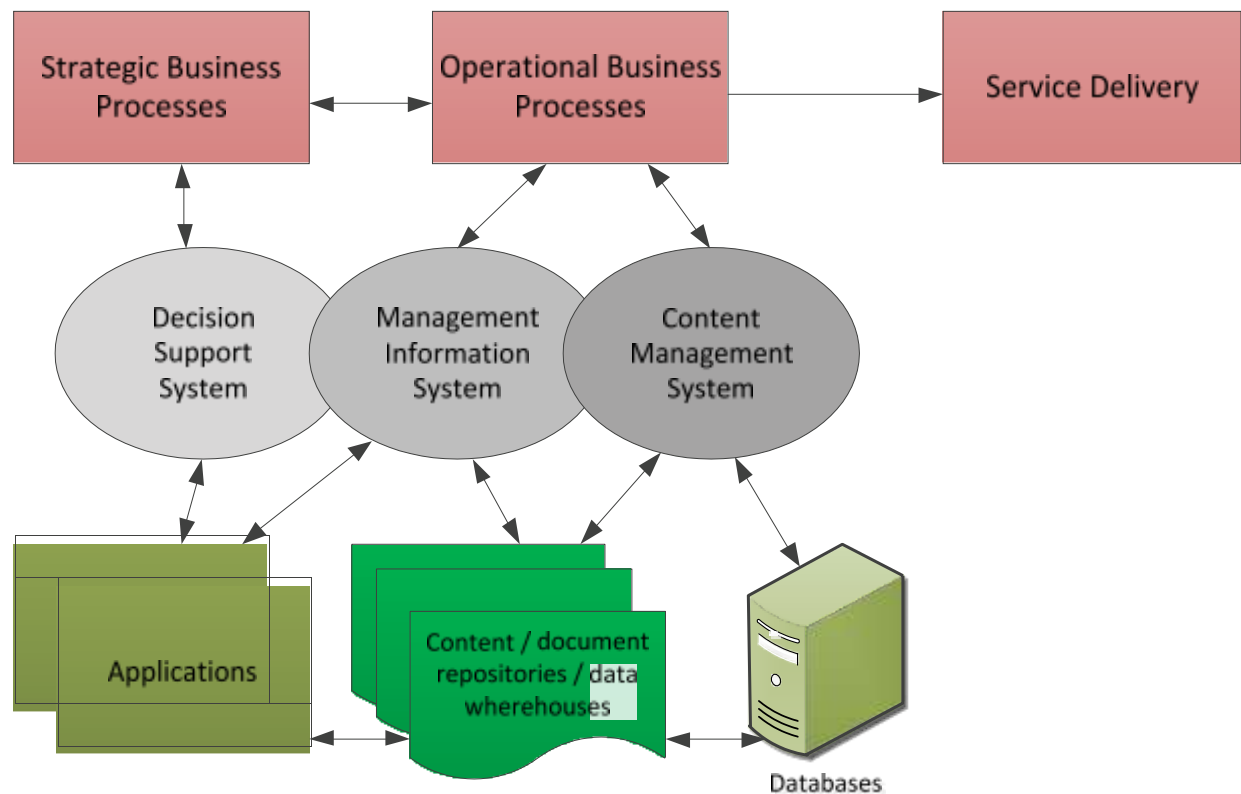
While the above might be considered to be extremely high level in providing guidance to municipalities, municipalities should remind themselves of the overall objective of the Regulation, which is to ensure the consistent classification of municipal transactional information across the entire local government accountability cycle for all 278 municipalities.

Municipalities need to understand the important linkage between business processes and systems of financial management and internal control i.e. financial applications. There are fundamental business processes which cannot be compromised. The business processes active within an organisation play a critical role in supporting management in generating information for management decision making and accountability for service delivery outcomes.

Increasingly, entities are using technology to automate, simplify and streamline particular tasks and functions. In this way, commercial or bespoke solutions are meant to assist officials within an organisation to generate information for management control and decision making purposes. As illustrated in the diagram below there is a direct correlation between management performance and information availability within any organisation.

¹ Manual intervention or interpretation of data.

The following diagram provides an illustrative perspective of the complete information management system and linkage to business processes:



The diagram below provides an illustrative perspective of the linkage between the local government financial management accountability cycle and *mSCOA*. The diagram clearly demonstrates how business processes, system functionality and management decision making need to be considered in a seamless manner and that these cannot be considered in isolation:

Acronym used in the diagram:	Refer to the:
MBRR	Municipal Budget and Reporting Regulations, 2009
IDP	Integrated Development Plan
SDBIP	Service Delivery- and Budget Implementation Plan
IYR	MFMA section 71 and 72 in-year reporting
AFS	Annual Financial Statements



5. Detail Business Process Requirements and Associated System Functionality

Any system of financial management and internal control, as a minimum, must comply with the seven main business and process components. The seven components must integrate seamlessly with the *mSCOA* general ledger and comply at a posting level to the *mSCOA* Regulations and GRAP. The seven main components are defined as follows:

1. General Ledger;
2. Billing;
3. Supply chain management;
4. Assets management;
5. Inventory and stores;
6. Budgeting and planning; and
7. Human Resources and payroll.

Directly aligned to the defined components as listed above, fifteen major business processes have been defined within Local Government. These fifteen business processes are as follows:

- i. Corporate Governance;
- ii. Municipal Budgeting, Planning and Modelling;
- iii. Financial Accounting; iv. Costing and reporting; v. Project Accounting;
- vi. Treasury and Cash Management;
- vii. Procurement Cycle: Supply Chain Management, Expenditure Management, Contract Management and Accounts Payable;
- viii. Grant Management;
- ix. Full Asset Life Cycle Management including Maintenance Management;
- x. Real Estate and Resources Management;
- xi. Human Resource and Payroll Management;
- xii. Customer Care, Credit Control and Debt Collection;
- xiii. Valuation Roll Management;
- xiv. Land Use Building Control; and

xv. Revenue Cycle Billing.

Directly aligned to the research outcomes into systems of financial management and internal control, the outcome of the *mSCOA* piloting process, and legislative requirements across the entire local government accountability cycle, these fifteen high level business processes have been further defined into sub-processes as contained in **Annexure B**. These sub-processes represent the business and technical requirements to ensure not only *mSCOA* compliancy, but also address the broader requirements of a system of financial management and internal control within a South African local government context.

6. Commercial-Off-The-Shelf Tier 1 Integrated Financial Management Systems versus Local, Bespoke and Third Party Systems

Observers have commented that only Commercial-Off-The-Shelf (COTS) Tier 1 Solutions will provide for *mSCOA* compliancy; **the National Treasury position**, informed by its five-year research in this regard, **is set-out below**:

The *mSCOA* pilot process confirmed that traditional locally designed systems and solutions can, similar to COTS, also provide the functionality in dealing with the business and technical requirements associated with *mSCOA*; in some cases, these locally designed systems also represent what has commonly been referred to as an integrated financial management system and incorporate best-of-breed and internationally accepted standards as it relates to financial management and internal control systems. In addition, some municipalities are operating on a core financial system supported by integrated third party solutions which also achieved the objectives and definition of an integrated financial management system.

However, irrespective of the municipality's preferred option (COTS/ or locally designed/ and including integrated third party solutions) it is crucial to maximise the cost savings and associated *mSCOA* implementation benefits offered to the municipality or municipal entity when making a decision in this regard. All municipalities are therefore advised to consider and compare the various service offerings in the transversal *Local Government Integrated Financial Management and Internal Control* tender, discussed in paragraph 8 below.

In our experience, it is more cost effective for a municipality to use an ICT system(s) solution which support and system updates are Rand based. Furthermore, it *appears* that local solutions are *generally* flexible to allow manual and excel integration at municipalities that do

not have the capital and/ or skills to operate COTS Tier 1 Solutions with their associated architectural configuration requirements.

7. Legislative Framework – Procurement of Systems of Financial Management and Internal Control

The MFMA (in particular chapter 11), the Municipal Supply Chain Management (SCM) Regulations and the Municipal Regulations on a Standard Chart of Accounts (*mSCOA*) apply to any system(s) conversion. In this regard, it is important that a municipality and municipal entity note that:

SCM Regulation, Section 31 - allowed the State Information Technology Agency (SITA) to assist a municipality to procure IT related goods or services through a competitive bidding process. Owing to the technical nature of the *mSCOA* classification framework, associated business processes and system requirements, the National Treasury recommends that municipalities ensure these minimum requirements as contained in this Circular are adequately addressed should they choose to proceed with Section 31 of the SCM Regulations.

SCM Regulation Section 32 - allows for procurement of goods and services under contracts secured by other organs of state but only if:

- a) the contract has been secured by that other organ of state ***by means of a competitive bidding process applicable to that organ of state.***
- b) the municipality has ***no reason to believe*** that such ***contract was not validly procured;***
- c) There are ***demonstrable discounts or benefits for the municipality to do so;***
and
- d) That the ***other organ of state and the provider*** have ***consented to such procurement in writing.***

In addition to the explicit requirements indicated above, municipalities need to comply with the following as it relates to **SCM Regulation Section 32**, namely:

- a) The scope of the services or works or the quantities of the goods in terms of specifications **must be exactly the same as those included in the contract** awarded by the other organ of the State;

- b) The contract entered into between the municipality and the service provider/ supplier **must be exactly the same** as the one that was originally secured by the other organ of the State; and
- c) The tender price that is included in the contract of the municipality **must be exactly the same** as the price that was included in the contract secured by the other organ of the State.

A municipality considering using a contract secured by another organ of the State for the procurement of a financial management and internal control system at this point in time would in all probability not meet the criteria as listed above. This owing to the fact that the National Treasury is unaware of any procurement that has recently been successfully concluded based on the business processes and technical requirements that would give effect to *mSCOA* compliancy. On the contrary, the National Treasury has only recently concluded the piloting of the classification framework which has resulted in the release of *mSCOA* Version 5.4 in December 2015 as explained in the introduction to this Circular.

To support municipalities in this regard, a transversal contract for the supply of *an integrated financial management and internal control system for local government* was issued and is discussed below in paragraph 8. Municipalities can use this transversal contract freely in terms of SCM Regulation 32 since it already meets all the criteria as discussed above.

8. Transversal Contract for the Supply of an Integrated Financial Management and Internal Control System for Local Government

As mentioned earlier in the Circular, one of the pressing concerns consistently raised by municipalities with the implementation of the *mSCOA* has been the functionality of current financial management and internal control systems to effectively operate on the multi- dimensional classification framework as represented by the seven segments and associated detail. Concerns raised have included:

- Limited technical skills within municipalities to effectively assess and evaluate system functionality aligned to the requirements of the *mSCOA* Regulation;
- It is difficult to determine actual requirements versus nice to have's;
- While municipalities undertake a supply management process, the technical assessment of actual service offerings is difficult owing to the technical nature of system evaluations; and

- Municipalities aren't necessarily getting value for money in relation to the service offering they receive.

Considering the challenges experienced by municipalities, the National Treasury, through the Office of the Chief Procurement Officer, advertised a Request for Proposal (RFP) on 4 March 2016 for the appointment of service providers for *an integrated financial management and internal control system for local government* (RT25-2016 on page 115 of Tender Bulletin No. 2906). The process has been structured as a transversal contract and differentiation applied to the technical specifications and business process in accommodating for all categories of municipalities i.e. metropolitan municipalities, secondary cities, large towns, small towns, district municipalities with billing, and districts without billing.

Municipalities are urged to review all the tender documentation in familiarising themselves with the content and structure of the RFP. The documentation can be accessed at:

<http://www.etenders.gov.za/content/rt25-2016-appointment-service-providers-integrated-financial-management-and-internal-control>

The objective of this tender process is not only to save municipalities' time and effort with the procurement process, but also to provide clear guidance with the appointment of services providers. Once the tender process has been completed, which is envisaged for the latter part of May 2016, municipalities will be able to make use of the panel of services providers in entering into service level agreements for the supply of financial management and internal control systems.

Importantly, while the National Treasury will facilitate the transversal tender process and provide a panel of service providers for the supply of financial management and internal control systems to local government, *municipalities will remain responsible for entering into service level agreements (SLA's), management of the SLA's, providing budget and the settlement of all invoices within the legislative framework governing local government.* Municipalities are also reminded that ICT, financial management and internal control systems, and associated expenditure already forms part of existing budgets. Municipalities will have to reprioritise existing budget allocations to provide funding for the implementation of this strategic and necessary financial management reform. Municipalities are reminded that the Financial Management Grant (FMG) can also be used over the MTREF to support mSCOA implementation.

The National Treasury acknowledges that metropolitan municipalities and secondary cities, in most instances, have the necessary skills and ability to deal with not only procurement but also highly technical aspects of financial management and internal control systems. ***In this regard, and with the exception of metropolitan municipalities and secondary cities, all other municipalities are highly recommended to make use of the transversal contract and associated panel of service providers for the supply of financial management and internal control systems once finalised. Should a municipality decide not to do so, it is required of them to formally write to the National Treasury (Chief Directorate: Local Government Budget Analysis) prior to going out on a supply chain management process, supplying clear reasons and motivation in support of the decision after which National Treasury will provide a written response and clear recommendations.***

9. MFMA Circular No. 57

This Circular replaces MFMA Circular No. 57 with immediate effect and does not apply retrospectively. Any system changes from 20 September 2011 to date, without following the guidance of the National Treasury could constitute fruitless and wasteful expenditure. The municipality and municipal entity is obliged to investigate any such system procurements/ changes and follow due governance in dealing with and reporting such, including appropriate disciplinary measures and recovering the costs of such system changes/ procurement from the person(s)/ official(s) responsible.

The National Treasury will not entertain any condonation of such fruitless and wasteful expenditure in the context of the clear guidance provided by MFMA Circular No. 57.

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08 March 2016

Annexure A – List of all municipalities and their respective system

MFMA Circular No. 80

vendors (service providers) which actively participated and contributed during the mSCOA piloting phase.

Municipalities / Metro's	ICT System
Buffalo City	Solar
Camdeboo Local Municipality	Promun
City of Cape Town Metro	SAP
City Of Johannesburg	SAP
City of Tswane	SAP
Drakenstein Local Municipality	Solar
Ekurhuleni Metro	eVenus
Elias Motsoaledi Local Municipality	Munsoft
eThekweni	JD EDWARDS
Greater Giyani Local Municipality	Sage Evolution
Hessequa Local Municipality	Venus
Knysna Local Municipality	ProMun
Mangahung	Solar
Nala Local Municipality	BIQ
Nelson Mandela Bay	Sebata
Nkangala District Municipality	Munsoft
Overstrand Local Municipality	Samras
Richmond Local Municipality	Abakus ²
Senqu Local Municipality	Sebata
Setsoto Local Municipality	Munsoft
Sol Plaatje Local Municipality	eVenus
Tlokwe Local Municipality	Phoenix
uMgungundlovu District Municipality	Sage Evolution
uMhlathuze Local Municipality	ProMIS ²
Victor Khanye Local Municipality	Sebata



Municipal Budget Circular for the 2016/17 MTREF

CONTENTS

1. 2016 LOCAL GOVERNMENT ELECTIONS AND THE BUDGET PROCESS.....	2
1.1 IMPACT OF LOCAL GOVERNMENT ELECTIONS ON DEMARCATION CHANGES	2
2. THE SOUTH AFRICAN ECONOMY AND INFLATION TARGETS.....	4
3. KEY FOCUS AREAS FOR THE 2016/17 BUDGET PROCESS	4
3.1 LOCAL GOVERNMENT CONDITIONAL GRANTS AND ADDITIONAL ALLOCATIONS	4
4. REVENUE MANAGEMENT	6
4.1 TARIFF SETTING	6
4.2 ESKOM BULK TARIFF INCREASES.....	7
5. FUNDING CHOICES AND MANAGEMENT ISSUES.....	7
5.1 EMPLOYEE RELATED COSTS	7
5.2 REMUNERATION OF COUNCILORS	7
5.3 COST CONTAINMENT MEASURES.....	7
5.4 2016/17 MTREF BUDGET ASSESSMENT.....	8
6. CONDITIONAL GRANT TRANSFERS TO MUNICIPALITIES.....	8
6.1 OVERSPENDING OF CONDITIONAL GRANTS	8
6.2 CRITERIA FOR THE ROLLOVER OF CONDITIONAL GRANT FUNDS	9
6.3 PAYMENT PROCEDURE ON CONDITIONAL GRANTS	9
7. THE MUNICIPAL BUDGET AND REPORTING REGULATIONS.....	9
7.1 ASSISTANCE WITH THE COMPILATION OF BUDGETS	9
8. BUDGET PROCESS AND SUBMISSIONS FOR THE 2016/17 MTREF	10
8.1 SUBMITTING BUDGET DOCUMENTATION AND SCHEDULES FOR 2016/17 MTREF	10
8.2 BUDGET REFORM RETURNS TO THE LOCAL GOVERNMENT DATABASE FOR PUBLICATION.....	11
8.3 MUNICIPAL STANDARD CHART OF ACCOUNTS (MSCOA)	12
8.4 GENERAL	12
ANNEXURE A – CHANGES TO SCHEDULE A1 – THE ‘EXCEL FORMATS’	13
ANNEXURE B – PREVIOUS MFMA CIRCULARS	14
BUDGET MANAGEMENT ISSUES DEALT WITH IN PREVIOUS MFMA CIRCULARS	14
CONDITIONAL GRANT ISSUES DEALT WITH IN PREVIOUS MFMA CIRCULARS	15
MBRR ISSUES DEALT WITH IN PREVIOUS MFMA CIRCULARS	15

Introduction

The budget circular is compiled annually to guide municipalities on how to prepare their budget inputs. This circular is a follow-up to the MFMA Budget Circular No.78 that focused on the preparation of the 2016/17 Medium Term Revenue and Expenditure Framework (MTREF). This guidance includes national policy imperatives that should be accommodated and other relevant information. The circular provides a summary of South Africa's economic outlook, inflationary targets, financial management issues and specific reference on how to give effect to National Treasury's Municipal Budget and Reporting Regulations (MBRR). The key focus of this circular is the impact of the date of the 2016 Local Government Elections on municipalities affected by re-demarcations and the changes to the local government grant allocations.

1. 2016 Local Government Elections and the budget process

1.1 Impact of Local Government Elections on demarcation changes

The date of the 2016 local government elections has not yet been declared, which means that it is also not yet known when the new demarcations will come into effect. The re-demarcation could take place before or after the start of the 2016/17 municipal financial year, which begins on 01 July 2016.

Allocations published in the 2016 Division of Revenue Bill are based on the new municipal boundaries because these new demarcations will be in effect for the majority of the 2016/17 municipal financial year. The following guidance was provided in the MFMA Budget Circular No. 78:

If the elections are held before 01 July 2016, merging municipalities will be expected to:

- Compile individual budgets for the 2016/17 MTREF and work as a team with other affected municipalities on the planning and technical processes in compiling the consolidated budget for the newly demarcated municipality; and
- Complete the remaining weeks of the financial year on their existing budget structures (and existing demarcations). The allocations published in the 2016 Division of Revenue Bill will then be transferred to the re-demarcated municipalities from 01 July 2016.

However, additional clauses have been added to section 38 of the 2016 Division of Revenue Bill to enable the National Treasury to gazette revised allocations if the elections take place after 01 July 2016.

If elections are held after 01 July 2016, the following is expected:

- Revised allocations to be transferred to the current 278 municipalities for the period between 01 July 2016 and the date of the elections (when the re-demarcated municipal boundaries will come into effect);
- The remaining allocations will be transferred to the re-demarcated municipalities after the elections;
- Merging municipalities to compile individual budgets for the 2016/17 MTREF and work as a team with other affected municipalities on the planning and technical processes in compiling the consolidated budget for the newly demarcated municipality; and
- Municipalities to implement the individual budgets until the new re-demarcations come into effect.

In areas affected by major re-demarcations the focus of the budget process for the 2016/17 MTREF should be on preparing the budget of the new municipalities that will come into effect

on the date of the 2016 local government elections. Public consultations and decisions regarding tariffs and spending priorities should be focused on how these new institutions will be funded and deliver services. As elections must be held by mid-August (in terms of the requirements of section 24 of the Municipal Structures Act) these new municipalities will be responsible for delivering services for the majority of the 2016/17 financial year and over the rest of the medium term period. Preparation of these budget documents should be led by the Change Management Committee established to manage the implications of re-demarcations in each area.

The councils of the pre-election municipalities affected by the boundary change must jointly consider the budget for the new municipality to be established to ensure that all the issues are addressed e.g. budget related policies. The draft budget prepared by the Change Management Committee and agreed to by the pre-election councils should then be adopted by the newly elected council as soon as possible after it is constituted. If there are changes to be made, they must be considered during the 2016/17 adjustments budget or the 2017/18 MTREF.

Municipalities that will be merged or disestablished on the date of the local government elections must also prepare 2016/17 MTREF budgets for their existing municipality. If the election is held after 01 July then expenditure and the collection of revenue will be done in terms of this budget until the budget of the new council is adopted. The budgets that these municipalities prepare must be aligned to the budget for the new municipality described above.

If two municipalities are merging then the total of the transfers they budget to receive should be equal to the total allocated to the new municipality in the 2016 Division of Revenue Bill. Municipalities can use the proportion of funds allocated to each municipality in terms of the 2015 Division of Revenue Act as a guide to how to apportion 2016/17 MTEF allocations between the existing municipalities. For example, if municipality 1 and municipality 2 are merging to form municipality 3 and municipality 1 received an equitable share twice as large as municipality 2 in 2015/16, then municipality 1 should prepare a 2016/17 MTREF budget based on receiving 66.6 per cent of the equitable share allocation published for municipality 3 in the 2016 Division of Revenue Bill.

If the local government election date is after 01 July 2016, National Treasury will gazette how much will be transferred to each pre-election municipality for the period between 01 July 2016 and Election Day. In terms of the requirements and process set out in section 38 of the 2016 Division of Revenue Bill, this gazette will be issued within 2 weeks after the election date is announced or the Bill is enacted (whichever date is later).

The changes to municipal boundaries result in some significant changes to municipal allocations in 2016/17. To cushion the impact of these changes, all municipalities will receive at least 95 per cent of the equitable share formula allocation indicatively allocated to them in 2016/17 in the 2015 Division of Revenue Act. For merged municipalities, this guarantee will be based on the sum of the equitable share allocations to the previously separate municipalities. In cases where a municipality has been split, the guarantee is applied to an area's share of the former municipality's equitable share, based on its portion of the population in the former municipality.

The role of the Change Management Committee is critical in ensuring that budget policies for the newly demarcated municipalities are developed. The MECs for local government have issued provincial gazettes in terms of section 14 of the Municipal Structures Act, 1998 (Act No 117 of 1998)(LGMSA) detailing the transitional process for municipalities affected by re-demarcations.

2. The South African economy and inflation targets

The 2016 Budget Review notes that since the tabling of the Medium Term Budget Policy Statement (MTBPS) in October 2015 the global economic crisis has deepened, exposing the depth of South Africa's external vulnerabilities and the internal constraints that limit its potential for growth. Global conditions have exposed South Africa's own economic weaknesses, with projected GDP growth revised down to 0.9 per cent for 2016 improving gradually to 1.7 per cent in 2017 and 2.4 per cent in 2018.

The weaker outlook is as a result of lower commodity prices, higher borrowing costs, drought and diminished business and consumer confidence. Constrained electricity supply continues to limit growth and deter fixed investment. Exchange rate depreciation is contributing to a higher inflation outlook during 2016.

These factors are expected to ease over the medium term. An upturn in global trade and investment, improved policy certainty, recovering consumer and business confidence, and greater availability and reliability of electricity in the outer years should support stronger growth.

Job creation remains one of the most pressing concerns for the economy. Headline employment grew by 3.7 per cent in the first three quarters of 2015. According to Statistics South Africa, 19 000 jobs were created in the formal sector and 273 000 in the informal sector in the first three quarters of 2015. The unemployment rate stood at 25.5 per cent in the third quarter of 2015, with the number of South Africans categorised as long-term unemployed 5.7 per cent higher than in 2014.

Higher inflation and weaker employment growth will impact on the ability of all municipalities to generate and collect revenue on services, to keep expenditures within budgeted allocations, and to borrow to fund capital expenditure programmes at affordable rates. Therefore it is critical for municipalities to review how they conduct their business to ensure value for money is obtained in all their expenditures, that revenue administration systems are operating effectively, that borrowing programmes are realistic, and that creditors (including bulk service providers) continue to be paid timeously and in full.

Municipalities must take the following macro-economic forecasts into consideration when preparing their 2016/17 budgets and MTREF.

Table 1: Macroeconomic performance and projections, 2014/15 – 2018/19

Fiscal year	2014/15	2015/16		2017/18	2018/19
	Actual	Estimate		Forecast	
CPI Inflation	5.6%	5.4%	6.6%	6.2%	5.9%
Real GDP growth	1.6%	0.9%	1.2%	1.9%	2.5%

Source: 2016 Budget Review

Note: the fiscal year referred to is the national fiscal year (April to March) which is more closely aligned to the municipal fiscal year (July to June) than the calendar year inflation.

3. Key focus areas for the 2016/17 budget process

3.1 Local government conditional grants and additional allocations

The purpose of the conditional grants is to deliver on national government priorities relating to service delivery. Additional funding is allocated in the form of unconditional allocations such as the equitable share and the sharing of the general fuel levy. The main purpose of the equitable share is to fund the provision of free basic services to the poor.

Over the 2016 MTEF period, R339.6 billion will be transferred directly to local government and a further R22.9 billion has been allocated to indirect grants. Direct transfers to local government over the 2016 MTEF period account for 9.1 per cent of national government's non-interest expenditure. The total spending on local government increases to 9.8 per cent of national non-interest expenditure when indirect transfers are added.

Direct transfers to local government grow at an annual average rate of 6.8 per cent over the 2016 MTEF period. Transfers to local government tabled in the 2016 MTEF have been reduced to make funding available for other government priorities. Over the MTEF period, local government allocations decrease by R967 million. Despite these reductions, total allocations to local government still grow at an annual average rate of 6.7 per cent over the MTEF period.

Municipalities are reminded that all allocations included in the budgets must correspond to the allocations listed in the Division of Revenue Bill. All the budget documentation can be located on the National Treasury website by clicking on the link below:

<http://www.treasury.gov.za/documents/national%20budget/2016/>

Changes to local government allocations

- The *local government equitable share* - the 2016 budget reduces the baseline allocation by R300 million, or 0.6 per cent, in 2016/17. In 2017/18 and 2018/19, R1.5 billion and R3 billion are added respectively to offset the rising costs of basic services. These amounts revise downwards the 2015 MTBPS medium-term projection of an additional R6 billion. This change is as a result of government's reprioritisation of expenditure.
- The *municipal demarcation transition grant* allocation – a total of R409.3 million has been allocated in 2016/17 and 2017/18 to fund the changes in municipal boundaries in affected municipalities.
- The *municipal systems improvement grant* has been reconfigured as an indirect grant from 2016/17 to help poorly performing municipalities with revenue collection, performance management and record keeping. Regional management support will also be provided to groups of municipalities facing common institutional weaknesses.
- A total of R350 million is added to the *bucket eradication programme grant* in 2016/17 to complete the eradication of bucket sanitation systems in formal residential areas. The *urban settlements development grant*, the *human settlements development grant* and the *municipal infrastructure grant* will continue to fund the upgrade of sanitation in informal settlements through various projects focused on improving these areas. An amount of R155 million is also reprioritised into the *regional bulk infrastructure grant*.
- There is also a small shift of funds from the *municipal infrastructure grant* to the *urban settlements development grant* to account for the absorption of Naledi Local Municipality (which receives the *municipal infrastructure grant*) into Mangaung Metropolitan Municipality (which receives the *urban settlements development grant*).

Reforms to local government infrastructure grants

The National Treasury, in collaboration with the Department of Cooperative Governance, the Department of Planning, Monitoring and Evaluation, SALGA and the FFC, has reviewed the system of local government infrastructure grants. Following an intergovernmental review of the local government infrastructure grant system, significant changes are being made to the way these grants are structured. The changes include:

- Allowing municipalities to use conditional grant funds to repair and refurbish existing infrastructure. Spending of grant funds on refurbishment should be focused on infrastructure serving the poor and does not remove the responsibility of municipalities to fund routine maintenance from the equitable share and own revenues. This will improve services and secure future revenue streams.
- Reducing the number of water and sanitation grants from four to two by merging of the previous *municipal water infrastructure grant*, the *water services operating subsidy grant* and the *rural household infrastructure grant* to create a new *water services infrastructure grant*. The regional bulk infrastructure grant is to fund large bulk-water and sanitation projects, and the water services infrastructure grant is to fund construction and refurbishment of reticulation schemes and on-site services in rural municipalities.
- A new formula to allocate the R6 billion per year set aside to upgrade public transport in 13 cities. The previous system incentivised cities to plan overly expensive systems in the hope of receiving more funding. The new formula provides greater certainty about the long-term support government will provide, and allows cities to plan affordable and sustainable infrastructure upgrades.

4. Revenue management

National Treasury continues to encourage municipalities to keep increases in property rates, tariffs for trading services and charges for other municipal own revenue sources within the parameters of the country's inflation rate. Furthermore, municipalities must adopt a tariff setting methodology that achieves an appropriate balance between the interests of poor households and other customers while ensuring financial sustainability of the municipality. Demand management is becoming increasingly necessary as the country faces water shortages and an unstable electricity supply. The approach to tariff setting should consider all these factors and strive to achieve an equitable balance.

It is anticipated that the cost of providing municipal services will grow at a faster rate than the transfers from national government. Resource scarcity will most likely increase the cost of bulk purchases in respect of water and electricity beyond the country's inflationary targets.

Furthermore, providing for free basic services in the case of poorer households must be carefully considered and, where some municipalities have opted to provide this benefit to ALL households, this may not be financially sustainable in the long-term. Where appropriate, a municipality should re-evaluate the costs and benefits of universal or targeted provision of free basic services subsidies, in order to protect their delivery to poor households in particular. At no point should the provision of these subsidies remove resources from programmes that will expand access to infrastructure services for presently un-served households.

Where municipalities do not have an adequate revenue base and where municipalities face a combination of challenges such as resource scarcity, high unemployment and slower than average economic growth, an aggressive approach to curbing non-core spending and improving operational efficiencies is strongly advised.

4.1 Tariff setting

There are several tools available and methodologies employed to determine the appropriate tariffs for water and electricity services. Municipalities may favour different approaches but the principles of tariff setting should be consistently applied.

Municipalities should consider the following practicalities when setting tariffs:

- Costs of bulk purchases and the fluctuation in the seasonal cost thereof;
- Consumption patterns to enable better demand planning and management; and
- In the event that municipalities have been under recovering costs, embark on a process to correct their tariff structures over a reasonable time period so that cost reflective tariffs are achieved.

The tariff setting process is reliant on sound baseline information such as the number of properties within the municipal area of jurisdiction, the values of these properties, the number of households identified as indigent or poor, the consumption patterns in respect of basic services and the growth patterns within the various geographic areas.

4.2 Eskom bulk tariff increases

In terms of the Multi Year Price Determination (MYPD) for Eskom's tariffs approved by the National Energy Regulator of South Africa (NERSA), a tariff increase of 9.4 per cent has been approved for the 2016/17 financial year. However NERSA has not yet approved and published guidelines on municipal electricity price increase for the 2016/17 financial year.

Municipalities are urged to examine the cost structure of providing electricity services and to apply to NERSA for electricity tariff increases that reflect the total cost of providing the service so that they work towards achieving financial sustainability.

5. Funding choices and management issues

Municipalities should carefully consider the costs associated with service delivery while keeping in mind affordability and inflation when setting revenue raising measures. Once again, approving tariffs that are far below levels representing the cost of providing the services would negatively impact on the financial sustainability of municipalities.

5.1 Employee related costs

The South African Local Government Bargaining Council recently entered into a three-year *Salary and Wage Collective Agreement* for the period 01 July 2015 to 30 June 2018. The agreement reached is as follows:

- 2015/16 Financial Year – 7 per cent
- 2016/17 Financial Year – average CPI (Feb 2015 – Jan 2016) + 1 per cent
- 2017/18 Financial Year – average CPI (Feb 2016 – Jan 2017) + 1 per cent

Municipalities are advised to use this Salary and Wage Agreement preparing their 2016/17 MTREF budgets.

5.2 Remuneration of councilors

Municipalities are advised to budget for the actual costs approved in accordance with the gazette on the Remuneration of Public Office Bearers Act: Determination of Upper Limits of Salaries, Allowances and Benefits of different members of municipal councils published on 21 December 2015 by the Department of Cooperative Governance.

5.3 Cost containment measures

In the 2016 State of the Nation Address by the President, the cost containment measures announced by the Minister of Finance in 2013 were re-emphasised. It was highlighted that excessive and wasteful expenditure has been reduced, but there is still more to be done to cut

wastage. In addition the President announced some new measures which include, amongst others:

- Curtailment of overseas trips and the submission of strong motivations by those requesting permission to travel i.e. the benefit to the country needs to be proved; and
- Institution of further restrictions on conferences, catering, entertainment and social functions.

The Minister of Finance announced further measures in his budget speech on 24 February 2016. The Mayors of municipalities were urged to join in eliminating wasteful expenditure in government.

The advice provided in MFMA Budget Circular (No. 58, 66, 70, 72, 74 and 75) on cost containment measures and elimination of non-priority spending is still applicable to municipalities. A separate MFMA Circular will be issued on cost containment measures. In addition National Treasury is firstly in a process of reviewing the National Treasury instruction on cost containment measures which was issued to accounting officers of departments and secondly, determining its applicability to local government. Once the process has been concluded, a Regulation on cost containment measures applicable to local government will be issued.

Municipalities were advised in MFMA Circular No. 70 to align their budgeting policies to the cost containment measures to the extent possible as approved by Cabinet in 2013. Municipalities are requested to table the cost containment measures in council and to submit evidence thereof to the National and Provincial Treasuries together with the budget documentation in terms of the MFMA.

5.4 2016/17 MTREF budget assessment

The National Treasury has continuously advised municipalities in previous budget circulars on financial management issues to be considered when compiling budgets. The 2016/17 MTREF budget assessment will critically consider the following:

- Cost reflective tariffs;
- Appropriateness of budget assumptions;
- Provision for asset renewal and maintenance;
- Credibility and level of funding of the budget (funded or not funded); and
- Alignment of the budgets to municipality's plans.

Therefore municipalities must ensure that their 2016/17 MTREF addresses the items listed above and further submit the methodology applied in setting tariffs when submitting budget documentation to the National Treasury in terms of the MFMA.

6. Conditional Grant Transfers to Municipalities

6.1 Overspending of conditional grants

Expenses incurred against conditional grants should be made in line with the allocations stated in the Division of Revenue Act (DoRA) as required by the Municipal Budget and Reporting Regulations (MBRR) in supporting tables SA 18 and 19. Municipalities must therefore adopt their annual budget in line with the allocations made in the DoRA.

In instances where municipalities overspent against their budgeted programmes, own revenue source should be used against such expenditure items. This implies that a debtor cannot be raised against the transferring national officer's future allocations.

6.2 Criteria for the rollover of conditional grant funds

The criteria published in MFMA Budget Circular No. 75 are still applicable when considering rollover requests. Municipalities must submit the required information or application to National Treasury by 31 August 2016, if not, the application will not be considered.

When considering rollover requests from municipalities, all unspent cash backed grants should be classified only as "Cash and cash equivalents". This number must also reconcile with the cash flow statements. All conditional grants must be spent in line with the conditions for which they are set for. They must not be invested.

6.3 Payment procedure on conditional grants

Conditional grants are paid in line with the approved payment schedule and are captured and authorised three days in advance. These payments include revised payment schedules, amended payment schedules, and withheld payments and rollovers credit payments.

7. The Municipal Budget and Reporting Regulations

National Treasury has released Version 2.8 of Schedule A1 (the Excel Formats). This version incorporates minor changes (see Annexure A). Therefore **ALL** municipalities **MUST** use this version for the preparation of their 2016/17 Budget and MTREF.

Download Version 2.8 of Schedule A1 by clicking [HERE](#)

The Municipal Budget and Reporting Regulations, formats and associated guides are available on National Treasury's website at:

<http://mfma.treasury.gov.za/RegulationsandGazettes/Pages/default.aspx>

7.1 Assistance with the compilation of budgets

If municipalities require advice with the compilation of their respective budgets, specifically the budget documents or Schedule A1, they should direct their enquiries to their respective provincial treasuries or to the following National Treasury official as follows:

	Responsible NT officials	Tel. No.	Email
Eastern Cape	Templeton Phogole	012-315 5044	Templeton.Phogole@treasury.gov.za
	Matjatji Mashoeshoe	012-315 6567	Matjatji.Mashoeshoe@treasury.gov.za
Free State	Vincent Malepa	012-315 5539	Vincent.Malepa@treasury.gov.za
	Cethekile Moshane	012-315 5079	Cethekile.moshane@treasury.gov.za
	Katlego Mabiletsa	012-395 6742	Katlego.Mabiletsa@treasury.gov.za
Gauteng	Kgomotso Baloyi	012-315 5866	Kgomotso.Baloyi@treasury.gov.za
	Nomxolisi Mawulana	012-315 5460	Nomxolisi.Mawulana@treasury.gov.za
KwaZulu-Natal	Bernard Mokgabodi	012-315 5936	Bernard.Mokgabodi@treasury.gov.za
	Johan Botha	012-315 5171	Johan.Botha@treasury.gov.za
Limpopo	Una Rautenbach	012-315 5700	Una.Rautenbach@treasury.gov.za
	Sifiso Mabaso	012-315 5952	Sifiso.Mabaso@treasury.gov.za
Mpumalanga	Jordan Maja	012-315 5663	Jordan.Maja@treasury.gov.za
	Anthony Moseki	012-315 5174	Anthony.Moseki@treasury.gov.za
Northern Cape	Willem Voigt	012-315 5830	Willem.Voigt@treasury.gov.za
	Mandla Gilimani	012-315 5807	Mandla.Gilimani@treasury.gov.za
North West	Sadesh Ramjathan	012-315 5101	Sadesh.Ramjathan@treasury.gov.za

	Makgabo Mabotja	012-315 5156	Makgabo.Mabotja@treasury.gov.za
Western Cape	Vuyo Mbunge	012-315 5661	Vuyo.Mbunge@treasury.gov.za
	Kevin Bell	012-315 5725	Kevin.Bell@treasury.gov.za
Technical issues with Excel formats	Elsabe Rossouw	012-315 5534	lgdataqueries@treasury.gov.za

National Treasury, together with the provincial treasuries, will undertake a compliance check and, where municipalities have not provided complete budget information, the municipal budgets will be returned to the mayors and municipal managers of the affected municipalities for the necessary corrections. Municipal managers are reminded that the annual budget must be accompanied by a 'quality certificate' in accordance with the format as set out in item 31 of Schedule A in the Municipal Budget and Reporting Regulations.

The National Treasury needs to emphasise that where municipalities have not adhered to the Municipal Budget and Reporting Regulations, ***those municipalities will be required to go back to the municipal council and table a complete budget document aligned to the requirement of the Municipal Budget and Reporting Regulations.***

Municipalities with municipal entities are once again reminded to prepare consolidated budgets and in-year reports for both the parent municipality and its entity or entities in that they are to produce:

- An annual budget, adjustment budget and monthly financial statements for the parent municipality in the relevant formats; and
- A consolidated annual budget, adjustments budget and monthly financial statements for the parent municipality and all its municipal entities in the relevant formats.

The A Schedule that the municipality submits to National Treasury must be a consolidated budget for the municipality (plus entities) and not the budget of the parent municipality only.

8. Budget process and submissions for the 2016/17 MTREF

8.1 Submitting budget documentation and schedules for 2016/17 MTREF

To facilitate oversight of compliance with the Municipal Budget and Reporting Regulations, accounting officers are reminded that:

- Section 22(b)(i) of the MFMA requires that ***immediately*** after an annual budget is tabled in a municipal council, it must be submitted to the National Treasury and the relevant provincial treasury in both printed and electronic formats. If the annual budget is tabled to council on 31 March 2016, the final date of submission of the electronic budget documents and corresponding electronic returns is **Friday, 01 April 2016**. The deadline for submission of hard copies including council resolution is **Friday, 8 April 2016**.
- Section 24(3) of the MFMA, read together with regulation 20(1), requires that the approved annual budget must be submitted to both National Treasury and the relevant provincial treasury ***within ten working days*** after the council has approved the annual budget. If the council only approves the annual budget on 30 June 2016, the final date for such a submission is **Thursday, 14 July 2016**, otherwise an earlier date applies.

The municipal manager must submit:

- the budget documentation as set out in Schedule A (version 2.8) of the Municipal Budget and Reporting Regulations, including the main Tables (A1 - A10) and ALL the supporting tables (SA1 – SA37) in both printed and electronic formats;
- the draft service delivery and budget implementation plan in both printed and electronic format;
- the draft integrated development plan;
- the council resolution;
- signed Quality Certificate as prescribed in the Municipal Budget and Reporting Regulations;
- **schedules D, E and F specific for the entities;**
- signed budget locking certificate as found on the website;
- service level standards; and
- mSCOA implementation plan and progress to date.

Municipalities are required to send electronic versions of documents and the A1 schedule to lgdocuments@treasury.gov.za.

If the budget documents are too large to be sent via email (exceeds 4MB) please submit to lgbigfiles@gmail.com. Any problems experienced in this regard can be addressed with Elsabe Rossouw at Elsabe.Rossouw@treasury.gov.za.

All new municipalities must submit the 2016/17 MTREF as soon as it is adopted by the newly elected council.

Municipalities are required to send printed submissions of their budget documents and council resolution to:

For couriered documents

Ms Linda Kruger
National Treasury
40 Church Square
Pretoria, 0002

For posted documents

Ms Linda Kruger National
Treasury Private Bag X115
Pretoria, 0001

In addition to the above mentioned budget documentation, metropolitan municipalities must submit the Built Environment Performance Plan (BEPP) tabled in council on 31 May 2016 to Yasmin.coovadia@treasury.gov.za. If the BEPP documents are too large to be sent via email (exceeds 4MB) please submit to yasmin.coovadia@gmail.com or send to Yasmin Coovadia via Dropbox; any problems experienced in this regard can be addressed with Yasmin.Coovadia@treasury.gov.za. Hard copies of the BEPP may be sent to Yasmin Coovadia, National Treasury, 3rd floor 40 Church Square, Pretoria, 0002 or Private Bag X115, Pretoria, 0001.

8.2 Budget reform returns to the Local Government Database for publication

For publication purposes, municipalities are still required to use the Budget Reform Returns to upload budget and monthly expenditure to the National Treasury Local Government Database. All returns are to be sent to lgdatabase@treasury.gov.za.

Municipalities are requested to submit returns for both the draft budget and the final adopted budget.

This will assist the National and provincial treasuries with the annual benchmark process. The aligned electronic returns may be downloaded from National Treasury's website at the following link: http://mfma.treasury.gov.za/Return_Forms/Pages/default.aspx.

8.3 Municipal Standard Chart of Accounts (*mSCOA*)¹

The *mSCOA* Regulations apply to all municipalities and municipal entities with effect from 1 July 2017 and only seven months remain for preparation and implementation readiness as the 2017/18 MTREF budgets will all have to be aligned to *mSCOA*. It is critical for municipalities to start budgeting on *mSCOA* by September 2016 to go live on 01 July 2017.

Municipalities are reminded that the current reporting requirements will remain in place until the National Treasury considers the implementation of the *mSCOA* and the new reporting reforms are no longer a risk. Those who do not adhere to the prescribed reporting according to the MBRR and the submission of the Budget reform returns to the National Treasury Local Government database will be regarded as non-compliant for publication purposes (refer to paragraph 8.2).

Municipalities that are implementing the *mSCOA* must use the latest version of the *mSCOA* classification framework at the link below when compiling the 2016/17 MTREF.

<http://mfma.treasury.gov.za/RegulationsandGazettes/MunicipalRegulationsOnAStandardChartOfAccountsFinal/Pages/default.aspx>

The MBRR Schedules will remain as is until further notice.

8.4 General

Municipalities use external service providers' e-mails as a result of weak or poor Information and Communication Technology (ICT). The affected municipalities are urged to use official e-mail addresses linked to the institution; therefore they must address the ICT challenges experienced.

Contact

Post Private Bag X115, Pretoria 0001
Phone 012 315 5009
Fax 012 395 6553
Website <http://www.treasury.gov.za/default.aspx>



JH Hattingh
Chief Director: Local Government Budget Analysis
07 March 2016

¹ The Minister of Finance promulgated the Municipal Regulations on a Standard Chart of Accounts in government gazette Notice No. 37577 on 22 April 2014.

Annexure A – Changes to Schedule A1 – the ‘Excel formats’

As noted above, National Treasury has released Version 2.8 of Schedule A1 (the Excel Formats). It incorporates the following changes:

No.	Sheet/ Table	Amendment	Reason
1	A10	Cost of free basic services	Improve reporting of services provided including informal settlements.
2	SA1	Revenue foregone	Improve reporting on revenue foregone and cost of free basic services.
3	SA9	Provision of free basic services	To provide detailed breakdown of free basic services which links to A10.

Annexure B – Previous MFMA Circulars

Budget management issues dealt with in previous MFMA Circulars

Municipalities are reminded to refer to MFMA Circulars 48, 51, 54, 55, 66, 67 and 70 with regards to the following issues:

1. Mayor's discretionary funds and similar discretionary budget allocation – National Treasury regards allocations that are not designated for a specific purpose to be bad practice and discourage them (refer to MFMA Circular 51).
2. Unallocated ward allocations – National Treasury does not regard this to be a good practice, because it means that the tabled budget does not reflect which ward projects are planned for purposes of public consultation and council approval (refer to MFMA Circular 51).
3. New office buildings – Municipalities are required to send detailed information to National Treasury if they are contemplating building new main office buildings (refer to MFMA Circular 51).
4. Virement policies of municipalities – Municipalities are reminded of the principles that must be incorporated into municipal virements policies (refer to MFMA Circular 51).
5. Providing clean water and managing waste water – Municipalities were reminded to include a section on 'Drinking water quality and waste water management' in their budget document (refer to MFMA Circular 54).
6. Renewal and repairs and maintenance of existing assets – Allocations to repairs and maintenance, and the renewal of existing infrastructure must be prioritised. Municipalities must provide detailed motivations in their budget documentation if allocations do not meet the required benchmarks set out in MFMA Circular 55 and 66.
7. Credit cards and debit cards linked to municipal bank accounts are not permitted – On 02 August 2011 National Treasury issued a directive to all banks informing them that as from 01 September 2011 they are not allowed to issue credit cards or debit cards linked to municipal bank accounts (refer to MFMA Circular 55).
8. Water and sanitation tariffs must be cost reflective - refer to MFMA Circular 66.
9. Solid waste tariffs – refer to MFMA Circular 70.
10. Variances between 4th Quarter section 71 results and annual financial statements – refer to Circular 67.
11. Additional In-Year reporting requirements – refer to MFMA Circular 67.
12. Appropriation statement (reconciliation: budget and in-year performance)- reference is made to circular 67. It came to the attention of National Treasury that a number of municipalities did not include the appropriation statement as part of their 2012/13 or 2013/14 annual financial statement. In terms of the Standards of GRAP 24 on the Presentation of Budget Information in Financial Statements, municipalities are required to present their original and adjusted budgets against actual outcome in the annual financial statements. This is considered an appropriation statement and the comparison between the budget and actual performance should be a mirror image of each other as it relates to the classification and grouping of revenue and expenditure as has been the case in a national and provincial context. This statement is subject to auditing and accordingly supporting documentation would be required to substantiate the compilation of this statement.
13. Eliminating non-priority spending – The 2013 MTBPS emphasised the need for government to step-up its efforts to combat waste, inefficiency and corruption (refer to MFMA circular 70).
14. Council oversight over the budget process – refer to MFMA Circular 70.

Conditional grant issues dealt with in previous MFMA Circulars

Municipalities are reminded to refer to MFMA Circulars 48, 51, 54, 55 and 67 with regards to the following issues:

1. Accounting treatment of conditional grants: Municipalities are reminded that in accordance with accrual accounting principles, conditional grants should only be treated as 'transfers recognized' revenue when the grant revenue has been 'earned' by incurring expenditure in accordance with the conditions of the grant.
2. VAT on conditional grants: SARS has issued a specific guide to assist municipalities meeting their VAT obligations – **VAT 419 Guide for Municipalities**. To assist municipalities accessing this guide it has been placed on the National Treasury website at: <http://mfma.treasury.gov.za/Guidelines/Pages/default.aspx>
3. Interest received and reclaimed VAT in respect of conditional grants: Municipalities are reminded that in MFMA Circular 48, National Treasury determined that:
 - Interest received on conditional grant funds must be treated as 'own revenue' and its use by the municipality is not subject to any special conditions; and
 - 'Reclaimed VAT' in respect of conditional grant expenditures must be treated as 'own revenue' and its use by the municipality is not subject to any special conditions.
4. Appropriation of conditional grants that are rolled over – As soon as a municipality receives written approval from National Treasury that its unspent conditional grants have been rolled-over it may proceed to spend such funds (refer to MFMA Circular 51 for other arrangements in this regard).
5. Pledging of conditional grant transfers – the 2015 Division of Revenue Bill contained a provision that allows municipalities to pledge their conditional grants. The end date for the pledges is extended to 2017/18. The process of application as set out in MFMA Circular 51 remains unchanged.
6. Separate reporting for conditional grant roll-overs – National Treasury has put in place a separate template for municipalities to report on the spending of conditional grant roll-overs. Municipalities are reminded that conditional grant funds can only be rolled-over once, so if they remain unspent in the year in which they were rolled-over they MUST revert to the National Revenue Fund.
7. Payment schedule – National Treasury has instituted an automated payment system of transfers to municipalities in order to ensure appropriate safety checks are put in place. Only the primary banking details verified by National Treasury will be used for effecting transfers.
8. Conditional grant transfers/payments, the responsibilities of transferring and receiving authorities and the criteria for the rollover of conditional grants – It is important that the transfers made to municipalities' are transparent, and properly captured in the municipalities' budgets. MFMA Circular no: 67 in this regard refers. The criterion for the rollover of conditional grants is stipulated in MFMA Circular no: 51.

MBRR issues dealt with in previous MFMA Circulars

Municipalities are reminded to refer to MFMA Circulars 48, 51, 54, 55 with regards to the following issues:

1. Budgeting for revenue and 'revenue foregone' – The 'realistically anticipated revenues to be collected' that must be reflected on the Budgeted Statement of Financial Performance (Tables A2, A3 and A4) must exclude 'revenue foregone'. The definition

of 'revenue foregone' and how it is distinguished from 'transfers and grants' is explained in MFMA Circular 51.

2. Preparing and amending budget related policies – Information on all budget related policies and any amendments to such policies must be included in the municipality's annual budget document (refer to MFMA Circular 54).

3. 2013/14 MTREF Funding Compliance Assessment – All municipalities were required to perform the funding compliance assessment outlined in *MFMA Funding Compliance Guideline* and to include the relevant information outlined in MFMA Circular 55 in their 2015/16 budgets (refer to MFMA Circular 55).

4. Tabling a funded budget - It is critical that municipalities adopt and implement funded budgets as per Section 18 of the MFMA. Tables A7 and A8 which if completed correctly by the municipality, it will provide most of the information required to evaluate whether a municipality's operating and capital budgets are founded or not

20. mSCOA Implementation and readiness

The standard chart of accounts regulations apply to all municipalities and municipal entities with effect from 1 July 2017 and it must be noted that only six months remain for preparation and implementation readiness for the 2017/18 MTREF budgets to be aligned to mSCOA. It is critical for the municipality to start budgeting on mSCOA by September 2016 to go live on 01 July 2017.

The municipality has made satisfactory progress in terms of its readiness. The annexure below shows the different phases that the municipality has achieved so far.

▪ Developments in the SCOA Implementation

Lukhanji municipality is a non – pilot municipality and therefore expected to implement SCOA in 2017/2018 financial year effective on the 1st of July 2017.

The following has taken place :

- The municipality started its SCOA awareness programme by taking the SCOA programme to council for rectification in July 2014.
- Steering committee established
- mSCOA coordinator appointed
- Risks relating to SCOA have been identified

Below is the municipality's m SCOA implementation plan up to its implementation in July 2017

1. Awareness

- The council meeting of 1 July 2014 resolved on mSCOA that the technical committees to be established as recommended by National Treasury.
- Managers have attended 3 workshops by Treasury and 2 by Business Connexions.
- Workshops within the municipal departments will be starting from the second week of February 2016.

2. Governance

- The project Steering Committee for mSCOA was established.
- Terms of reference were developed and signed, Annexure A.
- CFO was appointed as the project sponsor, Annexure C
- Project manager appointed
- Project implementation team established,

- Terms of reference for the project implementation team were developed and signed Annexure B.
- A details project plan to developed and signed off by the end of January 2016
- Risk analysis has been done and will be included into the risk register.

3. Project Initiation

- Analysis of the General Ledger and organisation structure to the Segments of mSCOA will be started by the second week of February 2016.
- Ongoing workshops and meeting by Business Connexion (Venus Vendor) will be attended by BTO.
- More staff form BTO will be attending the ongoing workshops and trainings by Treasury.
-

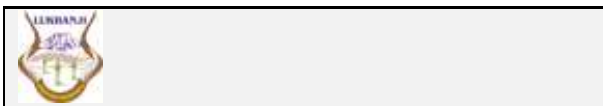
4. Specific requirements – System

- Interactions with the system vendor (Venus) have been started and quarterly meetings have scheduled.
- Clearing of suspense accounts will be done by end of June 2016.
- Analysis of the impact of mSCOA to the business processes still needs to be done.
- Alignment of the Organisational structure to the GFS classification
- Report on pilot municipalities by National Treasury will be analysed and lessons learned will be integrated into a plan.
- Concept structure to be developed before the start of the IDP/Budget process plan in August 2016

5. Migration to mSCOA classification

- Preparation and finalisation of take on balances and historical information to be finalised by the end of December 2016 after audited AFS.
- Compilation of detail budgets - SCOA classification across segments (2017/18 MTREF
- Testing and user acceptance to be done before the end of June 2017

Annexure A: Project Plan Framework



PROPOSED HIGH-LEVEL PROJECT PLAN FOR LUKHANJI LOCAL MUNICIPALITY	Completed Yes/No	Planned Start date	Planned Due date	Extension Date	Completed Date	% Completed	Responsible Official	Comments
Initial Preparation and Awareness								
Read the regulations, project documents, position papers and ICF documents and costing manual	Yes	2015-07-01	2016-06-30		2016-01-18	100	All	
Review of current chart, mSCOA tables	No	2015-07-01	2016-03-31			30	mSCOA Coordinator / Budget Manager	
Review mSCOA circulars	Yes	2015-07-01	2016-01-11		2016-01-18	100	All	
Review the guidance provided in the Project Summary Document at the end of each of its sections	Yes	2015-07-01	2015-12-31		2016-01-11	100	All	
Awareness workshops (Demystify mSCOA Council awareness - Council and Management)	No	2016-01-01	2016-03-31			60	mSCOA Coordinator / Budget Manager	
Develop Project Management skills	No	2016-01-01	2016-06-30			40	Budget Manager	
Register on FAQ Database	Yes	2016-01-01	2016-06-30		2016-02-15	100	mSCOA Coordinator / Budget Manager	
Governance								
Commissioning an mSCOA steering committee	Yes	2015-07-01	2016-06-30		2016-01-18	100	CFO	
Commissioning an mSCOA multi-disciplinary project team	Yes	2015-07-01	2016-06-30		2016-01-18	100	Budget Manager	
Set up the project governance structure and project management office (PMO)	Yes	2015-07-01	2015-12-31		2016-01-18	100	mSCOA Coordinator / Budget Manager	
Register a formal SCOA project in the municipality with a project sponsor, steering committee (with a terms of reference)	Yes	2015-07-01	2016-06-30		2016-01-18	100	CFO / Budget Manager / mSCOA Coordinator	
Draft a terms of reference for the municipality's SCOA project team	Yes	2015-07-01	2016-06-30		2016-01-18	100		
Develop a SCOA project delivery strategy, including the assignment of responsibilities, Key Performance Indicators (KPI's) and performance targets for the project and provide for regular project monitoring and reporting	No	2015-07-01	2016-06-30			20	mSCOA Coordinator / Budget Manager	

MFMA Circular No 79

Tabling the Municipal Regulations on Standard Chart of Accounts in the municipal council	No	2015-07-01	2016-06-30			0	CFO / Budget Manager	
Obtain Council approval for implementation of mSCOA, proposed governance structures, implementation plan and risk register	Yes	2015-07-01	2016-06-30			100	CFO	
Obtain proof of appointment, consent from the Senior Manager and evidence that this task and responsibility had been integrated in the Key Performance Areas of the Project Manager and Project Team	No	2015-07-01	2016-06-30			50	CFO / Budget Manager	
Tabling a progress report, including the updated risk register with the municipal council on a quarterly basis	Yes	2015-09-30	2016-06-30		2016-01-18	100	Budget Manager	

mSCOA Project Management								
Identify key human resources,	No	2015-12-01	2016-03-31			40	CFO / Budget Manager / mSCOA Coordinator	
Identify key project milestones	No	2015-12-01	2016-03-31			50	CFO / Budget Manager / mSCOA Coordinator	
Identify capital requirement and budget (servers, IT requirements)	No	2015-12-01	2016-03-31			40	IT Manager / mSCOA Coordinator	
Investigate effect of changes on the system	No	2015-07-01	2016-06-30			60	IT Manager / mSCOA Coordinator	
Set up project organisational/management arrangements (charter, scope, plan, budget, risks and issues)	No	2015-07-01	2016-06-30			40	mSCOA Coordinator / Budget Manager	
Prepare code of ethics and members to sign these	No	2015-07-01	2016-06-30				mSCOA Coordinator / Budget Manager	
Appoint stream leads to cover all 15 business processes								
Stream Leads								
<i>mSCOA steering committee and Project Management</i>	Yes	2015-07-01	2016-01-31		2016-01-18	100	CFO	
<i>IT infrastructure and network</i>	No	2015-12-01	2016-03-31			40	IT Manager / mSCOA Coordinator	
<i>Review current vote structure to mSCOA vote structure and prepare the annual budget on the structure</i>		2016-02-01	2016-03-31			30	mSCOA Coordinator / Budget Manager	
<i>Data cleansing and gap analysis</i>	No	2016-07-01	2016-03-31				Revenue Manager	
<i>HR & payroll</i>	No	2016-07-01	2016-03-31				Expenditure Manager / HR Manager	
<i>Planning (IDP, Budget, SDBIP, PM)</i>	No	2016-07-01	2016-03-31				Budget Manager / IDP Manager	
<i>Core system, additional systems</i>	No	2015-12-01	2016-03-31				IT Manager / mSCOA Coordinator	
<i>Real estate, land use and grant management</i>	No	2015-12-01	2016-03-31				Revenue Manager	
<i>Document management</i>	No	2015-12-01	2016-03-31				Corporate Services Director	

Business Processes								
Stream Leads to prepare detailed implementation plans with milestones for their area of responsibility dealing with applicable business processes								
Corporate governance	No	2015-07-01	2016-06-30				Corporate Services Director	
Municipal budgeting, planning and financial modelling	No	2015-07-01	2016-06-30				IDP Manager / Budget Manager	
Financial accounting	No	2015-07-01	2016-06-30				Budget Manager	
Costing and reporting	No	2015-07-01	2016-06-30				Budget Manager	
Project accounting	No	2015-07-01	2016-06-30				Budget Manager / Expenditure Manager	
Treasury and cash management	No	2015-07-01	2016-06-30				Budget Manager / Revenue Manager	

MFMA Circular No 79

Procurement cycle: Supply Chain Management, Expenditure Management, Contract Management and Accounts Payable	No	2015-07-01	2016-06-30				SCM Manager	
Grant management	No	2015-07-01	2016-06-30				Revenue Manager	
Full asset life cycle management including maintenance management	No	2015-07-01	2016-06-30				SCM Manager	
Real estate and resource management	No	2015-07-01	2016-06-30				Revenue Manager	
Human resources and payroll management	No	2015-07-01	2016-06-30				HR Manager	
Land use and building control management	No	2015-07-01	2016-06-30				Revenue Manager	
Valuation roll management	No	2015-07-01	2016-06-30				Revenue Manager	
Revenue cycle: meter reading, billing, accounts receivable, revenue management and receipting	No	2015-07-01	2016-06-30				Revenue Manager	
Customer care, credit control and debt collection	No	2015-07-01	2016-06-30				Revenue Manager	
Sign-off implementation plan	No	2015-07-01	2016-06-30				CFO	
Sign-off milestones achieved	No	2015-07-01	2016-06-30				CFO	
User acceptance testing	No	2015-07-01	2016-06-30				Budget Manager	
Stream Leads to prepare risk registers for their area of responsibility	No	2015-07-01	2016-06-30				Internal Audit	
Sign-off risk register	No	2015-07-01	2016-06-30				Internal Audit	
Stream Leads to prepare data purification / data cleansing for their area of responsibility	No	2015-07-01	2016-06-30				Budget Manager	
Sign-off data purification	No	2015-07-01	2016-06-30					
Prepare and plan for change management and transition	No	2015-07-01	2016-06-30				mSCOA Coordinator / Budget Manager	
Stakeholder engagement -establishment of user forums (PT & Other stakeholders)	No	2015-07-01	2016-06-30				CFO / Budget Manager	
Vendor engagement - vendor feedback and integration into project plan	No	2015-07-01	2016-06-30				IT Manager / mSCOA Coordinator / BCX	
Detailed migration project plan (vendor) and MOU	No	2015-07-01	2016-06-30				IT Manager / mSCOA Coordinator / BCX	
System User acceptance testing	No	2015-07-01	2017-06-30				IT Manager / mSCOA Coordinator / BCX	
System User acceptance training	No	2015-07-01	2017-06-30				IT Manager / mSCOA Coordinator / BCX	
Review the current municipal chart of accounts	No	2015-07-01	2016-06-30				Budget Manager / IT Manager / mSCOA Coordinator	
Document and map the current business processes in the municipality	No	2015-07-01	2016-06-30				Budget Manager / mSCOA Coordinator	
Determining impact on business policies, processes & procedures	No	2015-07-01	2016-06-30				Budget Manager / mSCOA Coordinator	
Undertake a Human Resources and Payroll review and allocation verification	No	2015-07-01	2016-06-30				HR Manager	
Review master information(suppliers, stores, fleet, job costing)							SCM Manager / Expenditure Manager	
Billing / Revenue create codes , transfer data and prepare the data base	No	2015-07-01	2016-06-30				Revenue Manager	
Conduct an "as is" review of IT infrastructure, network and archiving (ICT to define core functions used and those not used in core financial system and which system core functions are outsourced). <i>Use as a minimum the template attached as "Annexure C" to Municipal SCOA Circular 2. Submit the completed information to the National Treasury (Jan.Hattingh@treasury.gov.za) and the relevant provincial treasury on/ before Friday, 13 November 2015.</i>	Yes	2015-11-01	2015-11-13		2016-02-16	100	IT Manager / mSCOA Coordinator	

MFMA Circular No 79

Review 3 rd party systems / integration							IT Manager / mSCOA Coordinator	
Change all pre-printed stationary and internal documents							SCM Manager / Expenditure Manager	
Budget conversion and segment evaluation and alignment to current municipal GL and org structure								
Determine if breakdown is required	No	2016-08-01	2017-05-31					
Align function to municipal standard classification and identify anomalies	No	2016-08-01	2017-05-31				mSCOA Coordinator / Budget Manager	
Line by line comparison of the item segment (rev, exp, assets) and identify anomalies	No	2016-08-01	2017-05-31				mSCOA Coordinator / Budget Manager	
Defining funding sources and linking to the item segment	No	2016-08-01	2017-05-31				Budget Manager	
Define regional indicators and provide to SCOA Project Team	No	2016-08-01	2017-05-31				mSCOA Coordinator / Budget Manager	
Define operation and capital projects including repairs and maintenance	No	2016-08-01	2017-05-31				Budget Manager	
Using the methodology of the municipality, update costing methodology	No	2016-08-01	2017-05-31				Budget Manager / Expenditure Mnaager	
Considerations impacting on more than on segment – PPE register (module) to be aligned to project and item	No	2016-08-01	2017-05-31				Budget Manager	
Planning - project based	No	2016-08-01	2017-05-31				mSCOA Coordinator / Budget Manager	
Compilation of detail budgets - SCOA classification across segments (2017/18 MTREF)	No	2016-08-01	2017-05-31				mSCOA Coordinator / Budget Manager	
System Application								
Opening balance conversion – Historical information and data and sign off	No	2016-12-01	2017-06-30				mSCOA Coordinator / Budget Manager / AFS Manager	
Clearing of suspense accounts, clearing accounts, control accounts, and interface accounts	No	2015-07-01	2016-06-30				Expenditure Manager / Revenue Manager	
Reporting requirements – Test, analyse, and understand content								
Budget reporting formats (MBRR)	No	2016-07-01	2017-06-30				Budget Manager	
Annual financial statement	No	2016-07-01	2017-06-30				Budget Manager / AFS Manager	
Section 71 and 71 monthly reporting (current format)	No	2016-07-01	2017-06-30				Budget Manager	
Portal data testing and quality assurance	No	2016-07-01	2017-06-30				Budget Manager	
Project Audit File - Information on file								
Ensure proper document management for the SCOA project and municipal records	Yes	2015-07-01	2017-06-30					
Council resolutions	Yes	2015-07-01	2017-06-30				mSCOA Coordinator / Budget Manager	The file was opened
Project governance documentation	Yes	2015-07-01	2017-06-30				mSCOA Coordinator / Budget Manager	
Agenda, minutes and attendance registers	Yes	2015-07-01	2017-06-30				mSCOA Coordinator / Budget Manager	
Project plan and milestone reports	Yes	2015-07-01	2017-06-30				mSCOA Coordinator / Budget Manager	
Risk register and mitigation measures	Yes	2015-07-01	2017-06-30				mSCOA Coordinator / Budget Manager	
Issue log and resolutions	No	2015-07-01	2017-06-30				mSCOA Coordinator / Budget Manager	
User acceptance testing and sign off	No	2015-07-01	2017-06-30				mSCOA Coordinator / Budget Manager	
Project close out report								

MUNICIPAL ASSESSMENT

Lukhanji
System Vendor : Venus
Date

51

51

Comments

11/16/2015

Initial Preparation and Awareness

94

94

Circulate mSCOA web link to all project team and other appropriate staff members

100

Done

Read the regulations and circulate to all project team and other appropriate staff members

100

Done

Read the project summary documents and related terminology and circulate to all project team and other appropriate staff members

100

Done

Read the ICF documents and circulate to all project team and other appropriate staff members and edit/use these presentations for awareness sessions

70

Not all project team members have attended the awareness sessions.

Read the current chart – mSCOA tables (spreadsheets) and circulate to all project team and other appropriate staff members

80

Version 5.4

Read the mSCOA circulars and circulate to all project team and other appropriate staff members

100

Done

Attend NT and PT training sessions and workshops

100

Done

Register on FAQ database

100

Done

Use NT and PT awareness presentations and documents provided to assist in your own demystifying mSCOA awareness sessions to Council and management

100

Awareness done to management and project team. Sessions are still ongoing in departments

Governance

72

72

Commissioning an mSCOA steering committee and sponsor

100

Director Forum meeting was adopted as the Steering Committee

Commissioning an mSCOA multi-disciplinary project team

100

Representatives from each department formed project team

Set up the project governance structure and project management office (PMO)

100

CFO, Mrs Ntshanga appointed as project sponsor, Mr Abofra appointed as the project manager and secretariate to be done the CFO office.

Register a formal SCOA project in the municipality with a terms of reference for steering committee, project sponsor, project manager and project team

100

Terms of reference were signed

Develop a SCOA project delivery strategy, including the assignment of responsibilities, key performance indicators (KPI's) and performance targets for the project and provide for regular project monitoring and reporting

100

Council Approved the the implementation in July 2014. Risk register done and the implementation plan still to be approved

Obtain Council approval for implementation of mSCOA, proposed governance structures, implementation plan and risk register

Tabling the municipal regulations on standard chart of accounts in the municipal council

Obtain proof of appointment, consent from the senior manager and evidence that the mSCOA task and responsibility has been integrated in the key performance areas of the project manager and project team

50

Part of the BTO's SDBIP

Tabling a progress report, including the updated risk register with the municipal council on a quarterly basis

100

Report done for the second quarter

mSCOA Project Management	16	16	
Develop project management skills	100		
Identify key human resources,	100		Done
Identify key project milestones	100		Done
Identify capital requirement and budget (servers, IT requirements)	70		New server needs to be procured that will also accomodate growth and the merger
Investigate effect of changes on the system			
Prepare code of ethics and members to sign these			
Appoint stream leads to cover all 15 business processes			
<u>Stream Leads</u>			
<i>mSCOA steering committee and Project Management</i>	100		Done
<i>IT infrastructure and network</i>			
<i>Review current vote structure to mSCOA vote structure and prepare the annual budget on the structure</i>	20		Current structure was downloaded for analysis
<i>Data cleansing and gap analysis</i>			
<i>HR & payroll</i>			
<i>Planning (IDP, Budget, SDBIP, PM)</i>			
<i>Core system, additional systems</i>			
<i>Real estate, land use and grant management</i>			
<i>Document management</i>			
<u>Business Processes</u>			
Stream Leads to prepare detailed implementation plans with milestones for their area of responsibility dealing with applicable business processes:			
Document and map the current business processes in the municipality			
Determining impact on business policies, processes & procedures			
<i>Corporate governance</i>			
<i>Municipal budgeting, planning and financial modelling</i>			
<i>Financial accounting</i>			
<i>Costing and reporting</i>			
<i>Project accounting</i>			
<i>Treasury and cash management</i>			
<i>Procurement cycle: Supply Chain Management, Expenditure Management, Contract Management and Accounts Payable</i>			
<i>Grant management</i>			
<i>Full asset life cycle management including maintenance management</i>			
<i>Real estate and resource management</i>			
<i>Human resources and payroll management</i>			
<i>Land use and building control management</i>			
<i>Valuation roll management</i>			
<i>Revenue cycle: meter reading, billing, accounts receivable, revenue management and receipting</i>			
<i>Customer care, credit control and debt collection</i>			
Sign-off and update implementation plan			
Sign-off milestones achieved			
Stream Leads to prepare risk registers for their area of responsibility			
Sign-off risk register	100		
Stream Leads to prepare data purification / data cleansing for their area of responsibility			
Sign-off data purification			
Prepare and plan for change management and transition			

Stakeholder engagement -establishment of user forums (PT & Other stakeholders)	70		
Vendor engagement - vendor feedback and integration into project plan	20		Setup meetings with Business Connexions
Detailed migration project plan (vendor) and MOU			
Undertake a human resources and payroll review and allocation verification			
Review master information(suppliers, stores, fleet, job costing)			
Billing / revenue create codes , transfer data and prepare the data base			
Conduct an "as is" review of IT infrastructure, network and archiving (ICT to define core functions used and those not used in core financial system and which system core functions are outsourced). <i>Use as a minimum the template attached as "Annexure C" to Municipal SCOA Circular 2. Submit the completed information to the National Treasury (Jan.Hattingh@treasury.gov.za) and the relevant provincial treasury on/ before Friday, 13 November 2015.</i>	100		done
Review 3rd party systems / integration			
System User acceptance testing			
Change all pre-printed stationary and internal documents			
System Application	25	25	
Opening balance conversion – Historical information and data and sign off			
Clearing of suspense accounts, clearing accounts, control accounts, and interface accounts	50		Work has already started on a monthly basis we reconcile the suspense accounts
Reporting requirements – Test, analyse, and understand content	75	75	
Budget reporting formats (MBRR)	100		
Annual financial statement	100		
Section 71 and 71 monthly reporting (current format)	100		
Portal data testing and quality assurance			
Project Audit File - Information on file	71	71	
Ensure proper document management for the SCOA project and municipal records:			
Council resolutions	100		The file has been open
Project governance documentation	100		The file has been open
Agenda, minutes and attendance registers	100		The file has been open
Project plan and milestone reports	100		The file has been open
Risk register and mitigation measures	100		The file has been open
Issue log and resolutions			
User acceptance testing and sign off			
Project close out report	0	-	
Project close out report			



Lukhanji Municipality
BUDGET
APPENDIX A
RATES AND TARIFFS
2016/17 – 2018/19

Technical Services

PROPOSED TARIFFS FOR 2016/17

Availability fees

Monthly availability fee for electricity or sewerage	R59.35	R65.30
Point not connected to the reticulation network	R47.70	R52.50

Stormwater pipes across footpaths: residential buildings

That a Stormwater pipe across a footpath be done by the Council at a labour only basis where the owner of the property will provide all material. The aforesaid to be to the discretion of the Director: Technical Services.

Paving of sidewalks: commercial and business premises

In the event that the owner/operator of a commercial or business concern wishes to improve his premises by means of paving adjacent to the premises, the owner/operator shall provide all material and the municipality shall provide labour only.

Building plan and plan printing fees

Building fees to be determined on the minimum value of alterations on existing buildings or the construction of new buildings to be increased, as set out hereunder:

	2015/16	2016/17
Building under tile	R2 626.20	R2 888.80
Building under iron	R2 477.54	R2 725.30
Outbuildings	R2 477.54	R2 725.30
Open buildings (verandahs etc.)	R1 413.15	R1 554.46
Shell buildings	R2 063.45	R2 269.80
Internal alterations	R900.40	R990.45
Underground tanks	R7 003.20	R7 703.52
Porta pools	R6 006.77	R6 607.45
Swimming pools	R6 606.77	R7 267.45
Carports	R10 429.75	R11 472.75
Scrutiny fee (excluding Government Housing Projects)	R437.70	R481.47
Basic charge	R51.30	R56.43

Fee: $m^2 \times 0.00275 + \text{basic charge}$

Plan printing fees

Paper A2	R21.20	R23.30
Paper A1	R25.50	R28.05
Paper A0	R40.80	R44.90
Paper A3	R3.50	R3.85

Paper A4	R1.10	R1.20
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Road patching

To replace kerbing – Zone 1	R350.00	R385.00
To replace kerbing – Zone 2	R425.00	R467.50
Road patching on work done by Telkom and Electrical – Zone 1	R460.75	R506.80
Road patching on work done by Telkom and Electrical – Zone 2	R530.50	R583.55

Electricity charges

Domestic/Prepaid		
Flat rate tariff – meter (c/kwh)	166.44	183.08
Meter – IBT Block 1 (c/kwh) (0 – 50 kwh)	0.7973	0.8770
Meter – IBT Block 2 (c/kwh) (51 – 350 kwh)	1.0194	1.1213
Meter – IBT Block 3 (c/kwh) (351 – 600 kwh)	1.41	1.55
Meter – IBT Block 4 (c/kwh) (>600 kwh)	1.66	1.83

Commercial Small Users T3

Basic charge	R601.25	R661.38
Energy charge:		
<500	1.7391	1.9130
>500	1.3576	1.4934

Agriculture farmlands

Basic charge	R601.25	R661.38
Energy charge:		
<500	1.74	1.91
>500	1.36	1.50

Commercial (Prepaid) T4

Energy charge	1.74	1.91
---------------	------	------

Industrial tariffs – large power users < = 40 KVA T5

Basic charge	R1134.24	R1247.66
Energy charge	0.77	0.85
Demand charge	R210.67	R231.74
Demand charge KVA; where KVA = 80 KVA for demand \leq 80 KVA	R7846.73	R8631.40

Community Services

REFUSE TARIFFS				
			2016/2017	2016/2017
	REMOVALS		CHARGE	ADDITIONAL
DESCRIPTION	PER WEEK		PER BIN	BINS
DOMESTIC	1		R 94.68	R 94.68
BUSINESS/OTHER	2		R 147.53	R 110.70
BUSINESS/OTHER	3		R 221.35	R 166.05
BUSINESS/OTHER	4		R 295.15	R 213.60
BUSINESS/OTHER	5		R 368.93	R 276.55
BUSINESS/OTHER	6		R 442.65	R 289.97
INDIGENTS	1		R 0.00	R 0.00
OLD AGE HOMES	1		R 94.68	R 94.68
BULK CONTAINER - SMALL			R 260.39	R 175.20
BULK CONTAINER - LARGE			R 372.32	R 175.68
4.5M CONTAINERS			R 457.78	R 259.80
18M CONTAINERS			R 705.74	R 378.37
770 LITRE CONTAINER			R 282.89	R 143.08
REFUSE DISPOSAL SITE				
Tip Site Ticket (Per Load)			R 87.50	R94.50

LIBRARY FEES				
LIBRARIES FINES : VAT Inclusive		2015/16	2016/17	
1. Books, CD's, Art prints		R'1.50	R1.60	
2. Video's		R5.00	R6.00	
3. Lost member pocket		R2.5.00	R2.65	
3 Lost member card (PALS)		R10.00	R12.00	
4. Visitors		R25.00	R28.00	
5. Internet				
6. Printing from Internet				
7. Photocopies & Printing		R0.80	Black	
		R2.00	Black	
		R5.80	Colour	
		R12.00	Colour	
8. Membership fees		R45.00	R50.00	
LIBRARY HALL HIRE FEES				
Hall hire during office hours		R45.00	R50.00	
After hours (plus caretakers overtime)		R58.00	R60.00	
Cups & Saucers per 50 persons or part thereof		R35.00	R40.00	
Plates		R30.00	R35	
Cleaning		R125.00	R130.00	
Admin Costs		R10.00	R10.00	
Use of Kitchen		R85.00	R90.00	
Urn		R35.00	R40.00	
Stove		R55.00	R60.00	

BERRY & BONKOLO DAM USAGE FEES : VAT Inclusive				2016/2017
Entrance fee for Bonkolo dam per person				R30-00
Entrance fees : per vehicle with 5 people - Berry dam				R45-00
Entrance fees : additional people per person				R9-00
Season Tickets				R300-00
GAME RESERVE ENTRANCE FEES : VAT Inclusive				2016/2017
Entrance fees : per vehicle with 5 people				R45-00
Entrance fees : additional people per person				R9-00
No more than 80 people allowed per day for picnics				
Season Tickets				R250-00
GAME RESERVE LAPA HIRE FEES				2016/2017
		Excl VAT	Excl VAT	
Hire of Lapa (maximum of 40 people only)				R 800-00
Deposit of Lapa (refundable under conditions)				R 350-00
Overtime		Actual Costs p/hr	Actual Costs p/hr	
Hire of Sunnyside (maximum of 120 people per function)				R1500-00
Deposit of Sunnyside				R 500-00
Guided Vehicle Tour				R 150-00
Caravan or Tent				R 120-00
Electricity				R 80-00
Only educational tours are free of charge.				
CEMETERY CHARGES EXCLUDING VAT				2016/2017
CEMETRIES ; MLUNGISI, EZIBELENI, WHITTLESEA, ILINGE & LESSEYTON				
Adult Plot				R240-00
Casket Plot		R 0.00		R300-00
Baby Plot				R140-00
Digging of a Baby Grave				R160-00
Digging of Adult Grave				R270-00
Digging of Casket Grave				R320-00
Closing of Adult Grave				R180-00
Closing of Baby Grave				R125-00
CEMETRIES - NEW (Lukhanji and Queenstown)				
BERM SECTION				
Adult Plot and Casket Plot				R350-00
Digging of Adult Grave				R350-00
Digging of Casket Grave				R400-00
Closing of Grave				R240-00
Exhumation of Body				R1700-00
Funerals on Saturday additional				
Funerals on Sunday and Public Holidays				
CEMETERY - NEW MONUMENTAL SECTION				
Digging of Adult Grave				R 490-00
Single Adult Plot				R500-00
Double Plot				R1000-00
Digging of Casket Grave				R550-00
Extra Deep Grave				R240-00 extra
Outsize Casket Grave				R300-00 extra
Closing of Grave				R270-00
Wall of Remembrance				R 300-00
Ash Grave				R150-00
Burial of Ashes in existing grave				R150-00
Erection of monuments : Single Grave				R200-00
Erection of monuments : Double Grave				R400-00
CEMETERY - NEW BABY SECTION				
Closing of Baby Grave				R140-00
Outsize Baby Grave				R40-00 extra
Digging of Baby Grave				R230-00
Baby Plot				R270-00
EXHUMATION OF BODY				
Exhumation				R1700-00

FIRE BRIGADE FEES			
TURNOUT			
Machines	R 300.00		R 350.00
Each service vehicle used	R 300.00		R 350.00
Veld fire units	R 150.00		R 200.00
Hazchem trailer	R 250.00		R 300.00
TRAVELLING : KILOMETERS			
Machines	R 15.00		R 16.00
Veld fire units	R 8.00		R 9.00
Each service vehicle	R 8.00		R 8.00
OPERATING			
Operating of pump and equipment	R 90.00		R 100.00
Service vehicles			R 40.00
Veld fire units	R 50.00		R 60.00
STANDBY			
All vehicles per hour	R 60.00		R 70.00
Service vehicles	R 60.00		R 30.00
Fire extinguishers and foam	Foam plus 20%		Foam plus 20%
TESTING OF EQUIPMENT AND INSTALLATION			
Sprinkler system			
Up to five installations per premises per installation	R 100.00		R 100.00
Over five installations per premises per installation	R 15.00		R 15.00
Testing and Repairs : Hose and Couplings			
Hose (All diameters)			
Pressure testing per length	R 60.00		R 65.00
Vulcanising per patch	R 80.00		R 85.00
Big Suction	R 80.00		R 85.00
Big Suction (all diameters)	R 80.00		R 85.00
Wire bending each type	R 80.00		R 85.00
Big Suction	R 70.00		R 75.00
Truing couplings (all diameters)			
Hose per pair	R 60.00		R 65.00
Suction per pair	R 70.00		R 75.00
FIRE PERSONNEL FEES			
For each hour during which members of the Fire Brigade are engaged in :			
Chief Fire Officer	R 95.00		R 150.00
Each Officer	R 75.00		R 120.00
Each Fireman	R 70.00		R 100.00
FIRE STANDBY FEES			
Chief Fire Officer	R 95.00		R 150.00
Each Officer	R 75.00		R 120.00
Each Fireman	R 70.00		R 100.00
FIRE CASUAL FEES			
Fire Fighting	R80.00/P/H		R80.00/P/H
For attendance of personnel or use of equipment and material :			
BREATHING OF APPARATUS			
Compressed air type	R 100.00 per		R 150.00
	set plus R30.00		set plus R30.00
	per cylinder		per cylinder
FIRE - OTHER CHARGES			
Recharging cylinders	R 100.00		R 150.00
Oxygen resuscitation apparatus plus cost of recharging	R 50.00		
Portable lighting equipment - 5kw unit per hour	R 100.00 p/h		R 150.00
Smoke extrator - Whilst in operation	R 100.00 p/h		R 150.00
Smoke extrator - Whilst standing per hour	R 40.00 p/h		R 50.00
Portable foam apparatus			
Generator or branch per hour	R 80.00 plus		R 90.00
	20% Admin fee		
Medium expansion generator	R 80.00 plus		
	20% Admin fee		
Portable tank	R 80.00		
Chemicals			
Water			
For each hour or part thereof during which water is supplied :			
Large bore hose	R 80.00		R 90.00
Small bore hose	R 70.00		R 80.00
Floating pumps			100 P/H
Event compliance			
Application plus R200.00 per day thereafter			R 500.00
Fitness certificates			
Bulk depot			R 200.00
Dry cleaning			R 150.00
Spray rooms			R 150.00

As per policy

2015/16	2016/17
R 47.50	R 47.50
R 1.00	R 1.00
R 53.00	R 53.00
R 36.00	R 36.00
R 84.00	R 84.00
R 21.00	R 21.00
R 53.00	R 53.00
R 845.00	R 845.00

HUMAN SETTLEMENT & LAND DEVELOPMENT		2016/17	
Application for consent			
Application fees		R2 500	
Application for rezoning			
Erven 0 - 2 500 m2		R2 500	
Erven 2 501 - 5000m2		R4 500	
Erven 5001 -10 000m2		R9 000	
Erven 1 ha - 5 ha		R12 000	
Advertising fees		R2 000	
Application for sub - division - application fees			
Basic fee		R2 700	
Charge per sub - division(remainder considered subdivision		R150	
Application for Cell Mast (per application)		R4 600	
Zoning Certificate			



**Lukhanji Municipality
BUDGET
APPENDIX B
NEW AND REVISED POLICIES**

2016/17 – 2018/19

LUKHANJI MUNICIPALITY

BUDGET AND TREASURY DIRECTORATE



REVIEWED RATES POLICY

Prepared by Chief Financial Officer

045 807 2002

nntshanga@lukhanji.gov.za

TABLE OF CONTENTS

1.	DEFINITIONS	203
2.	INTRODUCTION	215
3.	CONSULTATION PROCESS	217
4.	GUIDING PRINCIPLES	217
5.	Imposition of Property Rates	218
6.	IMPERMISSIBLE RATES	219
7.	PROPERTY CATEGORIES	220
8.	RATING OF MULTIPLE USE PROPERTY	221
9.	DIFFERENTIAL RATING	221
10.	EXEMPTIONS, REDUCTIONS AND REBATES	222
11.	PROCEDURES FOR GRANTING EXEMPTIONS, REBATES & REDUCTIONS	225
12.	PENALTIES	227
13.	PAYMENT OF RATES	227
14.	ACCOUNTS TO BE FURNISHED	228
15.	FREQUENCY OF VALUATION	229
16.	REGISTER OF PROPERTIES	229
17.	BY-LAWS TO GIVE EFFECT TO THE RATES POLICY	230
18.	REGULAR REVIEW PROCESSES	230
19.	LEGAL COMPLIANCE	231
20.	BIODIVERSITY ACT	231
21.	ENFORCEMENT/IMPLEMENTATION AND ENQUIRIES	232
22.	ANNUAL REVIEW OF RATES POLICY	232

DEFINITIONS

'Act' means the Local Government: Municipal Property Rates Act, No 6 of 2004 and includes the regulations made in terms of Section 83 of the Act;

'Agent', in relation to the owner of a property, means a person appointed by the owner of the property-

- (a) to receive rental or other payments in respect of the property on behalf of the owner; or
- (b) to make payments in respect of the property on behalf of the owner;

'Agricultural purpose' in relation to the use of a property, excludes the use (of a property for the purpose of eco-tourism or for the trading in or hunting of game);

Other definitions:

'Annually' means once every financial year (1 July to the 30 June the following year);

'Appeal board' means a valuation appeal board established in terms of section 56;

'Assistant municipal valuer' means a person designated as an assistant municipal valuer in terms of section 35(1) or (2);

'Bona fide farmers' is a person that is fulltime farmer and if such land is used *bona fide* and exclusively by the owner or occupier for agricultural purposes;

"Building Allotment", means a property located in the rural area and described in the Deeds Office Records as Building Allotment;

‘Category’

(a) in relation to property, means a category of properties determined in terms of Section 8; and

(b) in relation to owners of properties, means a category of owners determined in terms of section 15(2)

‘Chief Financial Officer’ means the Chief Financial Officer as defined in the Municipal Finance Management Act;

‘Child-headed household’ means a household where the main caregiver of the said household is younger than 18 years of age. Child-headed household means a household headed by a child as defined in the section 28(3) of the Constitution.

‘Council’ means the Council of the Lukhanji Municipality;

‘Communal Land’ as defined in Section 1 of the Communal Land Right Act of 2004;

‘Data-Collector’ means a person designated as a data-collector in Section 36;

‘Date of valuation’ means the date determined by a municipality in terms of section 31(1);

‘District management area’ means a part of a district municipality which in terms of section 6 of the Municipal Structures Act has no local municipality and is governed by that municipality alone;

‘District Municipality’ means a municipality that has municipal executive and legislative authority in an area that includes more than one municipality, and which is described in section 155(1) of the Constitution as a category C municipality;

‘Dominant use’ in relation to a property means where a particular use is the largest proportion as compared to other uses on that property / pro rata

‘Due date’ means the date specified as such on a municipal account dispatched from the offices of the responsible officer for any rates payable and which is the last day allowed for the payment of such rates;

‘Effective date’-

(a) in relation to a valuation roll, means the date on which the valuation roll takes effect in terms of section 32(1);

(b) in relation to a supplementary valuation roll, means the date on which a supplementary valuation roll takes effect;

‘Exclusion’, in relation to a municipality’s rating power, means a restriction of that power as provided for in section 17;

‘Exemption’, in relation to the payment of a rate, means an exemption granted by a municipality in terms of section 15;

‘Financial year’ means the period starting from 1 July in a year to 30 June the next year;

‘Income Tax Act’ means the Income Tax Act, 1962 (Act No. 58 of 1962);

‘Infrastructure rate’ the municipality retains the right to implement a levy as determined by council according to sec.7 and 11;

‘Land reform beneficiary’, in relation to a property, means a person who -

(a) acquired the property through -

(i) the Provision of Land and Assistance Act No. 126 of 1993; or

(ii) the Restitution of Land Rights Act No. 22 of 1994;

(b) holds the property subject to the Communal Property Associations Act No 28 of 1996;

(c) holds or acquires the property in terms of such other land tenure reform legislation as may pursuant to section 25(6) and (7) of the Constitution be enacted after this Act has taken effect;

‘Land tenure right’ means an old order right or a new order right as defined in section 1 of the Communal Land Rights Act, 2004;

‘Local Community’, in relation to a municipality-

(a) body that mean of persons comprising –

(i) the residents of the municipality;

(ii) the ratepayers of the municipality;

(iii) any civic organisations and non-governmental, private sector or labour organisations or bodies which are involved in local affairs within the municipality; and

(iv) visitors and other people residing outside the municipality who, because of their presence in the municipality, make use of services or facilities provided by the municipality; and

(b) includes, more specifically, the poor and other disadvantaged sections of such body of persons;

‘Local Municipality’ means a municipality that shares municipal executive and legislative authority in its area with a district municipality within whose area it falls, and which is described in section 155(1) of the Constitution as a category B municipality;

'Market Value', in relation to a property, means the value of the property determined in accordance with Section 46 of the Act;

'MEC for Local Government' means the member of the Executive Council of a province who is responsible for local government in that province;

'Minister' means the Cabinet member responsible for local government;

'Multiple purposes', in relation to a property, means the use of a property for more than one purpose;

'Municipal Council' or **'Council'** means a municipal council referred to in section 18 of the Municipal Structures Act;

'Municipal Finance Management Act' means the Municipal Finance Management Act No. 56 of 2003;

'Municipal Systems Act' means the Local Government: Municipal Systems Act, No 32 of 2000;

'Municipality'-

- (a) as a corporate entity, means a municipality described in section 2 of the Municipal Systems Act; and
- (b) as a geographical area, means a municipal area demarcated in terms of the Municipal Demarcation Act No. 27 1998;

'Municipal Manager' means a person appointed in terms of section 54A of the Amended Municipal Systems Act 7 of 2011 of the Municipal Structures Act;

‘Municipal-owned property’ refers to property that is registered in the name of the Municipality and property vested by usage in the name of the Municipality whether it is used by the Municipality itself or made available to other entities without cost or in terms of a rental agreement;

‘Municipal Structures Act’ means the Municipal Structures Act No 117 of 1998;

‘Municipal Systems Act’ means the Municipal System Act No. 32 2000;

‘Municipal Valuer’ or “Valuer of a municipality” means a person designated as a municipal valuer in terms of section 33(1) of the MPRA;

‘Old order right’ means a tenure or other right in or to communal land which (Ciskei, Transkei and RSA) :-

- (a) is formal or informal;
- (b) is registered or unregistered;
- (c) derives from or is recognised by law, including customary law, practice or usage; and
- (d) exists immediately prior to a determination by the Minister in terms of section 18, but does not include –
 - (i) any right or interest of a tenant, labour tenant, sharecropper or employee if such right or interest is purely of a contractual nature; and
 - (ii) any right or interest based purely on temporary permission granted by the owner or lawful occupier of the land in question, on the basis that such permission may at any time be withdrawn by such owner or lawful occupier;

‘Occupier’, in relation to a property, means a person in actual occupation of a property, whether or not that person has a right to occupy the property;

‘Organ of state’ means an organ of state as defined in section 239 of the Constitution;

‘Owner’-

- (a) in relation to a property referred to in paragraph (a) of the definition of “property”, means a person in whose name ownership of the property is registered;
- (b) in relation to a right referred to in paragraph (b) of the definition of “property”, means a person in whose name the right is registered;
- (c) in relation to a land tenure right referred to in paragraph (c) of the definition of “property”, means a person in whose name the right is registered or to whom it was granted in terms of legislation; or
- (d) in relation to public service infrastructure referred to in paragraph (d) of the definition of “property”, means the organ of state which owns or controls that public service infrastructure as envisaged in the definition of “publicly controlled”, provided that a person mentioned below may for the purposes of this Act be regarded by a municipality as the owner of a property in the following cases:
 - (i) a trustee, in the case of a property in a trust excluding state trust land;
 - (ii) an executor or administrator, in the case of a property in a deceased estate;
 - (iii) a trustee or liquidator, in the case of a property in an insolvent estate or in
 - (iv) a judicial manager, in the case of a property in the estate of a person under
 - (v) a curator, in the case of a property in the estate of a person under curatorship;
 - (vi) a person in whose name a usufruct or other personal servitude is registered, in the case of a property that is subject to a usufructure other personal servitude;

- (vii) a lessee, in the case of a property that is registered in the name of a municipality and is leased by it; or
- (viii) a buyer, in the case of a property that was sold by a municipality and of which possession was given to the buyer pending registration of ownership in the name of the buyer;

'Penalty' in relation to the time period of underdeveloped vacant land, excluding agricultural land, which is not utilized in the specific time period as stipulated in the policy;

'Permitted use', in relation to a property, means the limited purposes for which the property may be used in terms of -

- (a) any restrictions imposed by -
 - (i) a condition of title;
 - (ii) a provision of a town planning or land use scheme; or
 - (iii) any legislation applicable to any specific property or properties;
- (b) any alleviation of any such restrictions;

'Person' includes an organ of state;

'Prescribe' means prescribed by regulation in terms of section 83;

‘Property’ means -

- (a) immovable property registered in the name of a person, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person;
- (b) a right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property;
- (c) a land tenure right registered in the name of a person or granted to a person in terms of legislation; or
- (d) public service infrastructure;

‘Property register’ means a register of properties referred to in section 23 of the MPRA;

‘Protected area’ means an area that is or has to be listed in the register referred to in section 10 of the Protected Area Act;

‘Protected Areas Act’ means the National Environmental Management: Protected Areas Act, 2003;

‘Publicly controlled’ means owned by or otherwise under the control of an organ of state, including -

- (a) a public entity listed in the Public Finance Management Act No. 1 of 1999.
- (b) a municipality; or
- (c) a municipal entity as defined in the Municipal Systems Act;

‘Public service infrastructure’ means publicly controlled infrastructure of the following kinds:

- (a) national, provincial or other public roads on which goods, services or labour move across a municipal boundary;
- (b) water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer scheme serving the public;

- (c) power stations, power substations or power lines forming part of an electricity scheme serving the public;
- (d) gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels;
- (e) railway lines forming part of a national railway system (excluding the land upon which the railway line is based) ;
- (f) communication towers, masts, exchanges or lines forming part of a communications system serving the public;
- (g) runways or aprons at national or provincial airports;
- (h) breakwaters, sea walls, channels, basins, quay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar services of ports, or navigational aids comprising lighthouses, radio navigational aids, buoys, beacons or any other device or system used to assist the safe and efficient navigation of vessels;
- (i) any other publicly controlled infrastructure as may be prescribed; or
- (j) rights of way, easements or servitudes in connection with infrastructure mentioned in paragraphs (a) to (i);

‘Rate’ means a municipal rate on property envisaged in section 229(1)(a) of the Constitution;

‘Rateable property’ means property on which a municipality may in terms of section 2 levy a rate, excluding property fully excluded from the levying of rates in terms of section 17;

‘Rebate’, in relation to a rate payable on a property, means a discount granted in terms of section 15 on the amount of the rate payable on the property;

‘Reduction’, in relation to a rate payable on a property, means the lowering in terms of section 15 of the amount for which the property was valued and the rating of the property at that lower amount;

‘Register’-

(a) means to record in a register in terms of-

(i) the Deeds Registries Act 47 of 1937; or

(ii) the Mining Titles Registration Act 16 of 1967; and

(b) includes any other formal act in terms of any other legislation to record-

(i) a right to use land for or in connection with mining purposes; or

(ii) a land tenure right;

‘Residential property’ means a property included in a valuation roll in terms of section 48 (2)(b) as residential;

‘Residential property: mixed use’ refers to property that is used predominantly for residential purposes (51 % or more) but has significant portions of the property devoted to purposes that fall within other categories of property;

‘Rural communal settlements’ means the residual portion of rural communal land excluding identifiable and rateable entities within the property and excluding State Trust Land and land reform beneficiaries as defined in the Act.

‘Sectional Titles Act’ means the Sectional Titles Act No. 95 of 1986;

‘Sectional title scheme’ means a scheme defined in section 1 of the Sectional Titles Act;

‘Sectional title unit’ means a unit defined in section 1 of the Sectional Titles Act;

‘Special State Owned Properties’ properties that are owned by National and Provincial Government, used for public benefit purposes and as a rule do not trade regularly in a four year valuation cycle.

'Specified public benefit activity' means an activity listed in item 1 (welfare and 5 humanitarian), item 2 (health care) and item 4 (education and development) of Part 1 of the Ninth Schedule to the Income Tax Act;

'State trust land' means land owned by the state-

- (a) in trust for persons communally inhabiting the land in terms of a traditional
- (b) over which land tenure rights were registered or granted; or
- (c) which is earmarked for disposal in terms of the Restitution of Land Rights

"Trading services", means services for which the tariffs are fixed to yield a trading surplus, like electricity and water services.

'Vacant land' means land, excluding agricultural land, where no immovable improvements have been erected.

INTRODUCTION

The purpose of this document is to serve as the foundation for public consultations on the Rates Policy the Lukhanji Municipality wishes to adopt on 1 July 2015, in line with the market-based valuation of all properties in the Lukhanji Municipal area of jurisdiction.

This document aims to invite views on how the municipality intends to apply the rating policy mechanisms at its disposal in the 2015/16 financial year, as required by the Act (MPRA).

2.1 The Municipal Property Rates Act No. 6 of 2004 (MPRA) requires municipalities to develop and adopt rates policies consistent with the Act on the levying of rates on rateable property in the municipality.

2.2 Municipalities need a reliable source of revenue to provide basic services and perform its functions. Income derived from property rates are a most important source of revenue for the municipality.

2.3 Revenue from property rates is used to fund services that benefit the community as a whole as opposed to individual households. These include constructed and maintaining streets, roads, sidewalks, street lighting, and storm drainage facilities; and building and operating clinics, parks, recreational facilities and cemeteries. Revenue from property rates is also used to fund municipal administration, such as computer equipment and stationery, and costs of governance, such as council and community meetings, which facilitate community participation on issues of Integrated Development Plans (IDPs) and municipal budgets.

2.4 Municipal property rates are set, collected, and used locally. Revenue from property rates is spent within a municipality, where the citizens and voters have a voice in decisions on how the revenue is spent as part of the Integrated Development Plans (IDP's) and budget processes, which a municipality invites communities to input prior to municipal council adoption of the budget.

2.5 The Constitution of the Republic of South Africa, sec 229 Of 1996, entitles municipalities to impose rates on property in their areas, subject to regulation in terms of national legislation.

2.6 The Constitution enjoins local government to be developmental in nature, in addressing the service delivery priorities of our country and promoting the economic and financial viability of our municipalities and in general to meet its obligations in terms of section 152 of the Constitution of the Republic of South Africa, 1996.

2.7 There is a need to provide local government with access to a sufficient and buoyant source of revenue necessary to fulfill its developmental responsibilities.

2.8 Income derived from property rates is a critical source of revenue for municipalities to achieve their constitutional objectives, especially in areas that have been neglected in the past due to racially discriminatory, inadequate or inappropriate legislation and regulation.

2.9 It is essential that municipalities exercise their power to impose rates within a statutory framework that not only enhances certainty, uniformity and simplicity across the nation, but also takes into account historical imbalances and the rates burden on the poor.

2.10 The Constitution of the Republic of South Africa confers on Parliament the power to regulate the exercise by municipalities of their fiscal powers.

CONSULTATION PROCESS

1. Inspection period for Members of the Public and interested parties, runs during April and May of 2015 for the financial year 2015/2016.
2. Ward General Meetings and Public Information Sessions are to be held during April and May 2015 for the financial year 2015/2016. Dates and venues that will be announced by means of notices and newspaper advertisements during April and May of 2015.
3. Organisations, Associations, Forums, Groupings and or Individual members of the public who wish to make written submissions can do so by completing the available Rates Policy Comments/Suggestion form. These forms should be addressed to The Municipal Manager, Lukhanji Municipality, Private Bag X7111, Queenstown, 5320.
4. Upon conclusion of the consultation process, Lukhanji Municipality will assess the implications of submissions and will publish a final Draft Rates Policy.
5. The Rates Policy for 2015/16 is then tabled before Council with the adoption of the budget and will be legislated as a By-Law of Council.
6. The consultation process is in accordance with section 4 of the MPRA 6 of 2004.

GUIDING PRINCIPLES

In formulating the rates policy for Lukhanji Municipality the following guiding principles will be taken into account:

- Equity, i.e. that all categories of property and categories of owners be treated equitably in relation to each other

- Affordability, i.e. that the rates policy should take into account issues of affordability across categories of owners
- Poverty Alleviation, i.e. that the rates policy should facilitate poverty alleviation within the context of the mechanisms at its disposal
- Social and Economic Development, i.e. that the rates policy should within the context of the mechanisms at its disposal seek to enhance social and economic development
- Financial Sustainability and Cost Efficiency, i.e. that the rates policy should be cost efficient and should enhance the financial sustainability of the municipality
- Encourage Development of Property, i.e. that the rates policy should utilize the mechanism at its disposal to encourage the development of property in line with the socio-economic development needs and goals of the municipality
- Community Participation, i.e. that the rates policy should be reflective of issues and options expressed during public engagements

Imposition of Property Rates

5.1 The Council shall as part of each annual operating budget component impose a rate in the rand on the market value of all rateable property recorded in the municipality's valuation roll and supplementary valuation roll.

5.2 Rateable property shall include any rights registered against such property, with the exception of a mortgage bond.

5.3 The Council pledges itself to limit each annual increase as far as practicable to the increase in the consumer price index over the period preceding the financial year to which the increase relates, except when the approved Integrated Development Plan of the municipality provides for a greater increase.

5.4 The Council shall, in imposing the rate for each financial year, take proper cognizance of the aggregate burden of rates and service charges on representative property owners, in the various categories of property ownership, and of the extent to which this burden is or remains competitive with the comparable burden in other municipalities within the local economic region. In dealing with the poor/indigent ratepayers the municipality will provide relief measures through exemptions, reductions, rebates and cross subsidy from the equitable share allocation.

IMPERMISSIBLE RATES

6.1 Rates are levied in accordance with the Act as an amount in the rand based on the market value of all rateable property contained in the municipality's valuation roll and supplementary valuation roll.

6.2 As allowed for in the Act, the municipality has chosen to differentiate between various categories of property and categories of owners of property as contemplated in clause 7 and 8 of this policy. Some categories of property and categories of owners are granted relief from rates. The municipality however does not grant relief in respect of payments for rates to any category of owners or properties, or to owners of properties on an individual basis

6.3 All existing rated property owners will not be phased in on the new valuation roll, except as prescribed by legislation.

Section 17 of the Act outlines Impermissible Rates, these include:

- the first 30% of the market value of public service infrastructure as defined in the Act
- protected areas
- (land with) mineral rights

- (land owned by) land reform beneficiaries
- the first R15 000 of the market value of residential property and properties used for multiple purposes of which one or more component thereof are used for residential purposes
 - property used primarily for religious worshipping purposes, including an official residence occupied by the officiating office bearer

PROPERTY CATEGORIES

Lukhanji Municipality has the following property categories:

- (a) Residential properties
- (b) Multi Purpose use of property
- (e) Business
- (f) Agricultural
- (g) Public Service Infrastructure
 - (h) Communal and State Trust Land
 - (h) State Owned Properties
 - (i) Municipal Owned Properties
 - (j) Schools including Public, Private and Early Childhood Development Centres
 - (k) Vacant properties, excluding agricultural
 - (l) Places of Worship
 - (m) Public Benefit Organisations
 - (n) Clinics and Institutions

RATING OF MULTIPLE USE PROPERTY

This category comprises properties with multiple zonings, one of which is residential or business vs.

- (i) Where the property is actually used predominantly (i.e. 51% or more of the area of the building) for residential purposes, the entire property will be rated according to the residential rate but will not attract any residential rebates.
- (ii) To qualify for the residential rate the owner must submit a declaration duly certified as correct by a registered town planner that the property is being used predominantly for residential purposes as envisaged in (i) above.
- (iii) Where a property's zoning allows for more than one permitted use and where the use of the property is used dominantly (51% fifty plus one percent) for business and commercial purposes the entire property will be rated in accordance with the business rate.
- (iv) If the dominant use is not residential but some other permitted use, the rate applicable to the predominant use will apply.

DIFFERENTIAL RATING

The following factors will be taken into consideration for the purpose of differential rating:

- The nature of the property including its sensitivity to rating e.g. agricultural properties used for agricultural purposes.
- The effects of rates on the property on the promotion of the social and economic development of a municipality.
- Differential rating among the various property categories will be done by way of setting ratios between the main categories of property and therefore different Cent amount in the Rand for different categories of property.
- In this context it is the intent to set different rates for residential properties in relation to commercial properties and different rates for different categories of vacant land as outlined in this policy.
- In addition exemptions, reductions in the value of properties and or rebates in respect of the cent in the rand payable, will be considered for various categories of owners, (such as for

example owners receiving old age or disability grants), based on the outcomes of public consultations and rating policy decisions.

EXEMPTIONS, REDUCTIONS AND REBATES

Exemptions, reductions and the level of rebate granted to specific owners within each category of property situated within the Municipality's jurisdiction will be determined annually as part of the review and determination of the Rates Policy and Budget process. Granting of rebates within a particular category of property is aimed at ensuring an equitable distribution of the property rates burden amongst the categories of property that constitute the property rates base of the Municipality.

Based on the guiding principles underpinning this policy and subject to any changes in national legislation, the following categories of property owners will be considered on annual application where applicable for exemptions, rebates and reductions:

10.1 Exemptions:

- a) Child headed households (exempt if owner registered/court of law approval)
- b) Owners of property situated within an area affected by a declared disaster area within the meaning of the Disaster Management Act, No. 57 of 2002 for the time period as stipulated.
- c) The Municipality may exempt a specific category of owners of properties, or the owners of a specific category of properties, from payment of a rate levied on their property for the financial year applicable.
- d) Public Service Infrastructure
- e) Places of Worship
- f) Municipal owned properties
- g) Duly registered public benefit organisations
- h) Communal Land as defined in Section 1 of the Communal Land Right Act of 2004;
- i) Land Reform Beneficiaries Sect 17 (1)g.
- j) Properties in areas where accounts cannot reach owners by mail.

10.2 Rebates and Reductions:

- k) Indigent households as defined in the municipality's indigent policy;
- l) Beneficiaries of old age grants;
- m) Beneficiaries of disability grants;
- n) Owners of properties who are not beneficiaries of old age or disability grants, but whose income is equivalent to that of such beneficiaries and who meet the criteria as defined in the municipality's indigent policy;
- o) Owners of properties who are unemployed
- p) bona fide farmers;
- q) Sporting bodies;
- r) Demolished properties
- s) Grant to a specific category of owners of properties, or to the owners of a specific category of properties, a rebate on or a reduction in the rates payable in respect of their properties.

Indigent households: The Council has adopted an "Indigent Policy" that provides for the alleviation of the rates burden on the low income sectors of the community within the Municipality. Owners of property who qualify for the assistance provided by this Policy must make application to access the relief provided if they do not automatically receive it.

Bona fide farmers: In the case of properties that are used for agricultural purposes, the owner(s) may qualify for an agricultural rebate, subject to the following conditions:

- a) The property must be used for *bona fide* agricultural purposes.
- b) The usage of the property must accord with the zoning scheme for the area.
- c) The owner must be registered with the South African Revenue Service as a farmer and must submit a copy of the last IT48 ("calculation of taxable income from farming operations") together with the application for a rebate. If no IT48 can be produced due to

recent ownership change, upon application, a municipal official, authorised by the Municipal Manager shall issue an agricultural certificate to the owner of the property after an inspection of the property if he or she is satisfied that such land is used *bona fide* and exclusively by the owner or occupier for agricultural purposes.

- d) If the owner is a company or a close corporation, which would preclude the South African Revenue Services from issuing an IT48 on behalf of the owner, upon application, a municipal official, authorised by the Municipal Manager shall issue an **agricultural certificate** to the owner of the property after inspection of the property if he or she is satisfied that such land is used *bona fide* and exclusively by the owner or occupier for agricultural purposes.
- e) The land owner must prove that he/she has complied (or is awaiting confirmation of application) with the National Veld and Forest Fire Act 101 of 1998 and legislation governing the control of alien invasive species.

Rebates Applicable to Bona Fide Farmers and Agricultural Properties will be 65% for Farmers not receiving the following services from the Municipality:

Electricity

Farmers receiving the above service from the Municipality will receive a rebate according to the services which they receive.

An additional 5 % rebate could be granted to farmers that contributes to job creation provided that proof be given of:

- The number of jobs created
- That the salaries/wages given to employees meet the minimum standards set by Government.

Public Benefit Organisations (PBO's)

Taking into account the effects of rates on PBO's performing a specific public benefit activity and registered in terms of the Income Tax Act for tax reduction because of those activities, it is proposed that PBOs performing the following specified public benefits activities be exempted from rating:

- Welfare and humanitarian, for example PBOs providing disaster relief.
- Health Care, for example PBO's providing counseling and treatment of persons afflicted with HIV and AIDS including the care of their families and dependents in this regard.
- Education and development, for example a PBO's providing early childhood development services for pre-school children.

Lukhanji Municipality will consider rebates in respect of public and independent schools as well as early childhood development centres.

Lukhanji Municipality may consider rebates in respect of Special State Owned Properties used for public benefit purposes and as a rule do not trade regularly in a four year valuation cycle in the open market.

PROCEDURES FOR GRANTING EXEMPTIONS, REBATES & REDUCTIONS

- (a) Applications for exemptions and rebates will only be considered after an application on the prescribed form has been lodged with the Chief Financial Officer on an annual basis
- (b) Applications must reach the Municipality before 31 May 2015, for which relief is sought, failing which the exemption or rebate will lapse and will only be re-instated once the application has been approved
- (c) All applications must be made under oath. In addition, applications for exemptions by public benefit organisations must be accompanied by a letter from the South African Revenue Service confirming that the organisation qualifies for exemption in terms of the Income Tax Act.

- (d) All other property owners seeking an exemption must submit either a letter from their auditors, or annual financial statements confirming that the applicant qualifies for an exemption. Properties for which application for exemption from the payment of rates is made must be used exclusively for the purpose that forms the basis for the application for exemption. Where this is not the case, the property will form part of the category multiple use properties and those portions not used for the purpose for which application for exemption has been made will be re-valued and property rates levied in accordance with the category/categories of property applicable. An application for an exemption or rebate must authorise the Municipality to inspect the property at any reasonable time during the financial year to confirm compliance with the conditions of the exemption or rebate. Where access is denied, the exemption or rebate may be withheld, or withdrawn, if already effective.
- (e) Applications for a reduction in rates based on a reduction in value of a property must be made on the prescribed form within 30 days of the occurrence of the event giving rise to the reduction of the value of the property relied upon. The onus rests on the applicant to ensure that the application form and all supporting documents are lodged timeously, and that the property concerned qualifies for the exemption, rebate, or reduction.
- (f) The effective date of an exemption or rebate shall be the date when the Municipality approves the application for exemption or rebate, irrespective of whether or not the property qualified for exemption or rebate in terms of its use prior to that date.
- (g) The Municipality reserves the right to refuse an exemption or rebate if the details supplied in the application are incomplete, incorrect, or false. In accordance with Section 15(3) of the Act, the Municipal Manager of the Municipality shall annually table in the Council of the Municipality:
- (i) list of all exemptions, rebates and reductions granted by the Municipality during the previous financial year; and
 - (ii) statement reflecting the income of the Municipality foregone during the previous financial year by way of such exemptions, rebates and reductions

and the exclusions referred to in Section 17 (1) (a), (e), (g), (h) and (i) of the Act.

The exemptions, rebates and reductions shall be clearly indicated on the property rates account submitted to each property owner.

PENALTIES

In relation to the time period of underdeveloped vacant land which is not utilized in the specific time period as stipulated in the agreement and or title deed, a periodical escalation will be applicable

PAYMENT OF RATES

- 13.1 The rates levied on the properties shall be payable:-
- (a) on a monthly basis; or
 - (b) annually, before 30 September each year.
 - (c) a once off application to pay on a monthly basis should be submitted in May of each year
- 13.2 The municipality shall determine the due dates for payments in monthly installments and the single annual payment and this date shall appear on the accounts forwarded to the owner/ tenant/ occupants/ agent.
- 13.3 Rates payable on an annual basis, excluding annual rates levied on state owned properties, will be subject to a discount determined by council if paid in full on or before 30 September of each year.
- 13.4 Interest on arrears rates, whether payable on or before 30 September or in equal monthly installments, shall be calculated in accordance with the provisions of the credit control, debt collection and indigent policy of the municipality.
- 13.5 The municipality retains the right to implement a levy as determined and approved by council according to sec.7 and 11, for properties identified as

suitable for a standard infrastructure rate. This is in terms of the Act and serves to simplify the billing of property rates for lower value properties.

- 13.6 If a property owner who is responsible for the payment of property rates in terms of this policy fails to pay such rates in the prescribed manner, it will be recovered from him/her in accordance with the provisions of the Credit Control, Debt Collection and indigent policy of the Municipality. Should an owner default on his debt for three consecutive months the amount is payable immediately. Application is not automatically resumed but re-application has to take place for monthly payments.
- 13.7 Arrears rates shall be recovered from tenants, occupiers and agents of the owner, in terms of section 28 and 29 of the Act and the Municipality's credit control and debt collection by-law.
- 13.8 Where the rates levied on a particular property have been incorrectly determined, whether because of an error or omission on the part of the municipality or false information provided by the property owner concerned or a contravention of the permitted use to which the property concerned may be put, the rates payable shall be appropriately adjusted for the period extending from the date on which the error or omission is detected back to the date on which rates were first levied in terms of the current valuation roll.
- 13.9 In addition, where the error occurred because of false information provided by the property owner or as a result of a contravention of the permitted use of the property concerned, interest on the unpaid portion of the adjusted rates payable shall be levied at the maximum rate permitted by prevailing legislation.

ACCOUNTS TO BE FURNISHED

- 14.1 The municipality will furnish each person liable for the payment of rates with a written account, which will specify:-
- (i) the amount due for rates payable,
 - (ii) the date on or before which the amount is payable,

- (iii) how the amount was calculated,
- (iv) the market value of the property, and
- (v) rebates, exemptions, reductions or phasing-in, if applicable.

14.2 A person liable for payment of rates remains liable for such payment, whether or not such person has received a written account from the municipality. If the person concerned has not received a written account, he/she must make the necessary enquiries with the municipality.

14.3 In the case of joint ownership the municipality shall consistently, in order to minimise costs and unnecessary administration, recover rates from one of the joint owners only provided that it takes place with the consent of the owners concerned.

FREQUENCY OF VALUATION

15.1 The municipality shall prepare a new valuation roll at least every 4 (four) years.

15.2 In accordance with the Act the municipality, under exceptional circumstances, may decide to extend the validity of the valuation roll to 5 (five) years by applying for approval to the MEC for Corporative Government and Traditional Affairs in the province.

15.3 Supplementary valuations may be done on a continual basis but at least a minimum of one supplementary valuation on an annual basis.

REGISTER OF PROPERTIES

16.1 The municipality will compile and maintain a register in respect of all properties situated within the jurisdiction of the municipality. The register will be divided into Part A and Part B.

16.2 Part A of the register will consist of the current valuation roll of the municipality and will include all supplementary valuations done from time to time.

- 16.3 Part B of the register will specify which properties on the valuation roll or any supplementary valuation roll are subject to:
- i. Exemption from rates in terms of section 15 of the Property Rates Act,
 - ii. Rebate or reduction in terms of section 15,
 - iii. Exclusions as referred to in section 17.
- 16.4 The register will be open for inspection by the public at elected municipal offices during office hours or on the website of the municipality.
- 16.5 The municipality will update Part A of the register during the supplementary valuation process.
- 16.6 Part B of the register will be updated on an annual basis as part of the implementation of the municipality's annual budget.

BY-LAWS TO GIVE EFFECT TO THE RATES POLICY

The municipality must in terms of Section 6 of the MPRA N0 6 of 2004 adopt By-laws to give effect to the implementation of the Rates Policy and such By-laws may differentiate between different categories of properties and different categories of owners of properties liable for the payment of rates.

REGULAR REVIEW PROCESSES

The rates policy must be reviewed on an annual basis to ensure that it complies with the Municipality's strategic objectives as contained in the Integrated Development Plan and with legislation.

LEGAL COMPLIANCE

In terms of Section 229 of the Constitution of the Republic of South Africa Act No. 108 of 1996, a municipality may impose rates on property.

In terms of Section 4(1) (c) of the Municipal Systems Act No. 32 of 2000, a municipality has the right to finance the affairs of the municipality by imposing, *inter alia*, rates on property.

In terms of Section 2(1) of the Municipal Property Rates Act No. 6 of 2004, a municipality may levy a rate on property in its area of jurisdiction in accordance with the provisions of the said Act.

The Council of the Municipality will impose a rate in terms of the aforementioned legislation. Consequently, this rates policy has been developed within the parameters of the applicable legislation relating to property rates.

This Property Rates Policy ('the Policy') is in terms of the Municipal Property Rates Act No 6 of 2004 and in conjunction with the Municipal Financial Management Act of 2003.

BIODIVERSITY ACT

'Critical Biodiversity Area' refers to areas defined as Critical Biodiversity Areas 1 and 2 (CBA1; CBA2) as defined in the Conservation Assessment and Plan that forms part of the Municipal Spatial Development Framework (SDF);

'Long-term protected critical biodiversity area' refers to critical biodiversity areas which been made subject to contractual agreements between the land owner and the municipality for a period of thirty years or in perpetuity, and entered into the title deeds of the land;

‘Short-term protected critical biodiversity area’ refers to critical biodiversity areas which have been made subject to contractual agreements between the land owner and the municipality for a period of five years.

ENFORCEMENT/IMPLEMENTATION AND ENQUIRIES

This policy has been approved by the Municipality in terms of resolutiondated May 2016 and comes into effect on 1 July 2016.

ANNUAL REVIEW OF RATES POLICY

This policy has been considered and approved by the COUNCIL OF LUKHANJI LOCAL MUNICIPALITY as follows:

Resolution No:

Approval Date:

CLlr N Makanda
Executive Mayor

NZ Gqiba
Municipal Manager

LUKHANJI MUNICIPALITY

BUDGET AND TREASURY DIRECTORATE



REVIEWED CASH MANAGEMENT AND INVESTMENT POLICY

Prepared By Chief Financial Officer

057 807 2001/2

nntshanga@lukhanji.gov.za

Adopted ???

1. Purpose

The purpose of this policy is to establish investment guidelines for the Lukhanji Municipality. This policy is intended to meet the requirements of the Municipal Finance Management Act (MFMA) and to be consistent with the 'Municipal Investment Regulations' issued by National Treasury.

This policy is to be adopted by the Lukhanji Council with effect from July 2016.

2. Scope

This policy is applicable to all available cash for the Lukhanji Municipality.

All investments made by or for the Lukhanji Municipality must be made in conformance with this policy.

3. Objectives

- a. Ensuring that cash resources are managed efficiently and effectively,
- b. Ensuring that investments are placed with reputable institutions, for the purpose of safety of capital investment, and diversification of the Investment Portfolio,
- c. Ensuring that adequate liquidity is maintained at all times, for management of cashflows,
- d. Ensuring that the municipality receives optimal yield / interest on its investments with financial institutions, at minimal risk,
- e. Striving for reasonable growth on capital investments in addition to interest earned on investments,
- f. Ensuring that monies due to Council are collected and banked appropriately as soon as they are received, and
- g. Ensuring that payments to creditors are made by the due dates.

4. Effective Cash Management

4.1 Cash Collection

All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis.

The respective responsibilities of the chief financial officer and other heads of departments in this regard are defined in the MFMA roles of Senior Management.

The unremitting support of and commitment to the municipality's credit control policy, both by the council and the municipality's officials, is an integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

4.2 Payments of Creditors

The chief financial officer shall endeavour to ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favourable to the municipality (not more than 30 days), that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the municipality.

This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the chief financial officer before any payment is made.

In case of small, micro and medium enterprises, where such a policy may cause financial hardship to the contractor, payment may be effected at the conclusion of the month during which the service is rendered or within 14 days of the date of such service being rendered, whichever is the later. Any such early payment shall be approved by the chief financial officer before any payment is made.

Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques. Special payments to creditors shall only be made with the express approval of the chief financial officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

4.3 Cash Flow Management

The Chief Financial Officer shall monitor cash flows on a daily basis to ensure that council is able to meet its financial commitments and that the operating bank account does not carry unduly high balances. Any surplus funds shall be transferred on a daily basis to a call account attracting the highest possible interest provided that those funds can be retrieved at short notice. The chief financial officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a quarterly basis. The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when – if applicable - either long-term or short-term debt must be incurred.

The chief financial officer shall report to Committees of Council, as the case may be, on a quarterly basis the cash flow estimate or revised estimate for such quarter or reporting period respectively, together with the actual cash flows for the quarter or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate. The cash flow estimates shall be divided into calendar months, and in reporting the chief financial officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned

4.4 Unresolved Reconciling Items

Unidentified bank deposits must be adequately followed up. After a period of 6 (six) months where no claims are made or the origin of the payment is still unknown / unidentified, the amount will be journalised as current year revenue.

Cheques older than 6 months (stale) must be re-issued subsequent to follow up. Should the new cheque to the same supplier become stale, the amount will be reversed against the expenditure account.

5 INVESTMENT ETHICS, PRINCIPLES AND PROCEDURES

5.1 Investment Ethics and Principles

- 5.1.1** The Chief Financial Officer shall be responsible for managing municipal investments,
- 5.1.2** No improper outside influence or internal interference will be permitted at any time in regard to management of cash and placing of investments
- 5.1.3** Quotations for call and/or fixed deposits from the approved financial institutions (a minimum of three) will be obtained at the time of contemplating an investment,
- 5.1.4** Financial institutions will be required to submit confirmation certificates upon the placement of investments, which will include a declaration that no commission was paid relating to the investment,
- 5.1.5** The Chief Financial Officer shall maintain a detailed investment register,
- 5.1.6** The Chief Financial Officer shall hold in safe custody all investment certificates and other related documents, for audit purposes and proper record keeping,
- 5.1.7** Investments made must be in the name of Lukhanji(S12 of the Municipal Regulations
- 5.1.8** No funds will be borrowed for the purpose of investments (S12 of the Municipal Investment Regulations),
- 5.1.9** The Chief Financial Officer shall ensure that interest and capital is received and receipted when due,
- 5.1.10** Any risk arising from any investment transaction rest with the municipality (S12 of the Municipal Investment Regulations).
- 5.1.11** The Chief Financial Officer must ensure that municipal investments are placed equitable amongst the approved financial institutions. Investment limits must be determined as stipulated in Paragraph 11 of this policy, and no more than 25% of municipal investments can be placed with one institution

5.2 Investment Procedure

The selection of an investee for any investment shall be a competitive process. Where applicable, quotations shall be invited telephonically from at least three eligible investees for the terms for which the investment is to be placed. In the event of one of the investees offering a more beneficial rate for an alternative term, the other investees initially invited to quote should be approached for their rates on the alternative term.

Quotations shall be recorded in writing and the recommended investee identified for signed approval by the authorised officials. As a general rule, the best rate offered shall secure the investment. Written confirmation of the terms of the investment shall be prepared and exchanged with the investee in all cases.

Investments shall be made electronically by EFT. Strict segregation of duties shall be maintained between the creator of a payment file and the payment authoriser/releaser.

Investment EFT payments shall be authorised/released by the delegated officials that are mandated to transfer municipal funds.

6 ESTABLISHMENT OF AN INVESTMENT PANEL

The Accounting Officer is responsible for establishing an "Investment Panel" which will be responsible for all investment related matters of the municipality, including decisions for placing investments, setting investment limits, signing investment cheques, signing investment correspondence, revision of Cash Management and Investment Policy, etc.

The Budget and Treasury officials will serve as members of the investment panel: -

6.1 Chief Financial Officer or his delegate

6.2 At least one First Level Manager who shall not be the CFO's delegate at that point in time,

6.3 The panel will be responsible to consider the quotation and inform the recommended investee by the Chief Financial Officer in writing.

7 ACCOUNTING TREATMENT OF INTEREST EARNED ON INVESTMENTS

The interest accrued on all municipal investments shall, in compliance with the requirements of generally recognised accounting, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and may thereafter be appropriated to the fund or account in respect of which such investment was made depending on the conditions which apply to the fund or account.

8 Investment reporting

Regular reporting mechanisms shall be in place in order to assess the performance of the investment portfolio and to ensure that the investments comply with policy objectives, guidelines, applicable laws and regulations

8.1 Internal Budget and Treasury management

8.1.1 A daily summary of current investments by investee, actual against limits.

8.1.2 A detailed schedule of investment capital and interest maturing on the current day.

8.1.3 A daily summarised schedule of future maturities for all investments.

8.1.4 A monthly reconciliation of all interest accrued with interest actually received.

8.2 For the political leadership

8.2.1 A monthly report on the investment portfolio, to be submitted to the Mayor and Finance Committee as part of section 71 reporting within ten working days of each month, detailing:

- (a) the market value of each investment as at the beginning of the reporting;
 - (b) any changes in the investment portfolio during the reporting period;
 - (c) the market value of each investment at the end of the reporting period; and
 - (d) fully accrued interest and yield for the reporting period.
- o A quarterly report to Council, in accordance with section 11.4.(a) of the Act, within 30 days after the end of each quarter, on the quarter's cash withdrawals from the Municipals bank account for investment purposes.'

8.3 For external parties

8.3.1 Notification to the Auditor-General, within 30 days after the end of the financial year, by all investees of any investment held by the Municipality City during that year.

8.3.2 Notification to the Auditor-General and the Provincial Treasury, within 90 days, of the name, type and number of any new bank account opened by the Municipality

9 Annual review of policy

9.1 This policy on investments will be reviewed annually or earlier if so required by legislation.

9.2 Any changes to the investment policy must be adopted by Council and be consistent with the Act and any National Treasury regulations.

10. Effective date

The effective date of this policy, or any amendments thereto, shall be the date of its adoption by Council.

11. Policy Adoption

This policy has been considered and approved by the COUNCIL OF LUKHANJI LOCAL MUNICIPALITY as follows:

Resolution No:

Approval Date: ??????

N Makanda
Executive Mayor

NZ Gqiba
Municipal Manager

LUKHANJI MUNICIPALITY BUDGET AND TREASURY DIRECTORATE



Irregular, Fruitless, Unauthorised and Wasteful Policy

Prepared By Chief Financial Officer: N Ntshanga

Tel 045 807 2002

INTRODUCTION

1.1. In terms of section 62 of the Municipal Finance Management Act No. 56 of 2003 (herein referred to as “MFMA”), the accounting officer is responsible for managing the financial affairs of Lukhanji Local Municipality (LM) and she must, for this purpose, inter alia:

- a) Take all reasonable steps to ensure that unauthorised, irregular; fruitless and wasteful expenditure and other losses are prevented; and
- b) Ensure that disciplinary or, when appropriate, criminal proceedings are instituted against any official or councillor of LM who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15 of the MFMA.

1.2. This is to ensure the effective, efficient and transparent systems of financial, risk management and internal control.

2 OBJECTIVES

2.1. This document sets out LM’s policy and procedures with regards to unauthorised, irregular, fruitless and wasteful expenditure.

2.2. This policy aims to ensure that, amongst other things:

- a) Unauthorised, irregular, or fruitless and wasteful expenditure is detected, processed, recorded, and reported in a timely manner;
- b) Officials and councillors have a clear and comprehensive understanding of the procedures they must follow when addressing unauthorised, irregular, fruitless and wasteful expenditure;
- c) LM resources are managed in compliance with the MFMA, the municipal regulations and other relevant legislation; and
- d) All officials and councillors are aware of their responsibilities in respect of unauthorised, irregular, fruitless and wasteful expenditure.

ENABLING LEGISLATION

The following enabling legislation sets the precedent for the development of LM unauthorised, irregular, fruitless and wasteful expenditure Policy:

- a) The Constitution of the Republic of South Africa, 1996, Act No 108 of 1996;
- b) The Municipal Finance Management Act, 2003, No 56 of 2003;
- c) The Remuneration of Public Office Bearers Act;
- d) Municipal Systems Act, 2000, Act No 32 of 2000;

- e) MFMA Circular 68;
- f) Any other legislation, regulation or circular that may impact this policy; and
- g) Municipal Structures Act No. 117 of 1998.

APPLICATION OF THIS POLICY

3.1. This policy applies to all officials and councillors of LM

3.2. This policy should be read in conjunction with the following of LM:

- a) Code of Conduct for Municipal Staff Members; and
- b) Code of Conduct for Councillors.

3.2. Officials and Councillors must ensure all instances of unauthorised, irregular expenditure as well as fruitless and wasteful expenditure is prevented where possible, and is detected and reported in a timely manner.

4 DEFINITIONS

Except if otherwise indicated:

“Councillor” means member of municipal council of LM.

„Fruitless and wasteful expenditure“ means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

“Financial Misconduct” means any misappropriation, mismanagement, waste or theft of the finances of a municipality, and also includes any form of financial misconduct specifically set out in sections 171 and 172 of the Act.

“Irregular expenditure”, in relation to a municipality or municipal entity, means:

- a) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- (b) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of this Act;
- c) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998, (Act 20 of 1998);

d) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of LM or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law; or

e) Excludes expenditure by a municipality which falls within the definition of „unauthorised expenditure“ .

„**Official**“ , in relation to a LM, means:

a) an employee of LM;

b) a person seconded to a LM or to work as a member of the staff of the LM; or

c) a person contracted by a LM to work as a member of the staff of the LM or otherwise than as an employee.

„**Overspending**“ means:

a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

b) In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

c) In relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section.

„**Political Office Bearer**“ means the speaker, executive mayor, Councillor, or a member of the executive committee as referred to in the Municipal Structures Act.

„**Prohibited expenditure**“ in relation to this policy means unauthorised, irregular, fruitless and wasteful expenditure;

„**Senior Manager**“ has the meaning assigned to it in section 1 of the MFMA and in relation to LM refers to Directors and CFO

„**Unauthorised expenditure**“ , means:

any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes-

a) Overspending of the total amount appropriated in the municipality's approved budget;

- b) Overspending of the total amount appropriated for a vote in the approved budget;
- c) Expenditure from a vote unrelated to the department or functional area covered by the vote;
- d) Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of „allocation“ “ otherwise than in accordance with any conditions of the allocation; or
- f) a grant by LM otherwise than in accordance with the MFMA.

„Vote“ means:

- (a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different department or functional areas of the municipality; and
- (b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

6 UNAUTHORISED EXPENDITURE

6.1. Lukhanji Municipality may incur expenditure only in terms of an approved budget and within the limits of the amounts appropriated for the different votes in an approved budget.

6.2. Expenditure incurred within the ambit of LM“ s virement policy included in the budget policy is not regarded as unauthorised expenditure.

6.3. Any expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, economic entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the MFMA is regarded as unauthorised expenditure.

Unauthorised expenditure would include:

- a) Any overspending in relation to both the operational budget and capital budget of the municipality;
- b) Overspending in relation to each of the votes on both the operational budget and capital budget;
- c) Use funds allocated to one department for purposes of another department or for purposes that are not provided for in the budget;

- d) Funds that have been designated for a specific purpose or project within a departments vote may not be used for any other purpose;
- e) Any use of conditional grant funds for a purpose other than that specified in the relevant conditional grant framework is classified as unauthorised expenditure;
- f) Any grant to an individual or household unless it is in terms of the municipality's indigent policy, bursary scheme, corporate social responsibility policy, councillors discretionary grant or the grants-in-aid;
- g) Unforeseen and unavoidable expenditure not authorised within an adjustments budget within 60 days after the expenditure was incurred; and
- h) Any overspending on non-cash items, for example depreciation, impairments, provisions.

6.5 Officials and councillors must ensure that all instances of fruitless and wasteful expenditure are prevented where possible, and are detected and reported in a timely manner

6.6 Expenditures that are NOT classified as unauthorized expenditure

Given the definition of unauthorised expenditure, the following are examples of expenditure that are NOT unauthorised expenditure:

- i. Any over-collection on the revenue side of the budget as this is not an expenditure; and
- ii. Any expenditure incurred in respect of:
- iii. Any of the transactions mentioned in section 11(1)(a) to (j) of the MFMA;
- iv. Re-allocation of funds and the use of such funds in accordance with a council approved virement policy;
- v. overspending of an amount allocated by standard classification on the main budget Table A2 (Budgeted Financial Performance: revenue and expenditure by standard classification), as long as it does not result in overspending of a „vote“ on the main budget Table A3 (Budgeted Financial Performance: revenue and expenditure by municipal vote) and Table A4 (Budgeted Financial Performance: revenue and expenditure (read in conjunction with supporting Table SA1) of the MBRR; and
- vi. overspending of an amount allocated by standard classification on the main budget Table A5 (Budgeted Capital Expenditure by vote, standard classification and funding) of the MBRR so long as it does not result in overspending of a „vote“ on the main budget Table A5.

Money withdrawn from a bank account under the following circumstances, without appropriation, in terms of an approved budget, is not regarded as unauthorised expenditure:

- a) To defray expenditure authorised in terms of section 26 (4) of the MFMA, [*Section 26: Consequences of failure to approve a budget before the start of the budget year*];
- b) To defray unforeseen / unavoidable expenditure circumstances strictly in accordance with Section 29 (1) of the MFMA [*Section 29: Unforeseen and unavoidable expenditure*] failing which the unforeseen /unavoidable expenditure is unauthorised;
- c) Re-allocation of funds and the use of such funds in accordance with a council approved virement policy;
- d) Expenditure incurred from a special bank account for relief, charitable or trust purposes provided of course that it is done strictly in accordance with Section 12 of the MFMA [*Section 12: Relief, charitable, trust or other funds*];
- e) To pay over to a person or organ of state money received by the LM on behalf of that person or organ of state, including—
 - (i) Money collected by the LM on behalf of that person or organ of state by agreement; or
 - (ii) any insurance or other payments received by the LM for that person or organ of state;
- f) To refund money incorrectly paid into a bank account;
- g) To refund guarantees, sureties and security deposits;
- h) For cash management and investment purposes in accordance with section 13 [*Section 13: Cash Management and Investments*]; and
- i) To defray increased expenditure in terms of section 31 [*Section 31: Shifting of funds between multi-year appropriations*].

6.6.2 Any expenditure approved in terms the Municipal Budget and Reporting Regulations (MBRR).

7 IRREGULAR EXPENDITURE

7.1. Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy.

7.2. Irregular expenditure is actually expenditure that is in violation of some or other procedural/legislative requirement as specified in the MFMA. Irregular expenditure excludes unauthorised expenditure.

7.3. Although a transaction or an event may trigger irregular expenditure, a Council will only identify irregular expenditure when a payment is made. The recognition of irregular expenditure must be linked to a financial transaction.

7.4. If the possibility of irregular expenditure is determined prior to a payment being made, the transgression shall be regarded as a matter of non-compliance.

7.5. Remuneration of councillors

7.5.1 Payments to LM councillors cannot exceed the upper limits of the salaries, allowances and benefits for those councillors as promulgated in the Public Officers Bearers Act.

7.5.2 Any remuneration paid or given in cash or in kind to a person as a councillor or as a member of a political structure of LM otherwise than in accordance with 7.6.1 including any bonus, bursary, loan, advance or other benefit, must be classified as irregular expenditure.

7.6. Irregular staff appointments

7.6.1. No person may be employed in LM unless the post, to which he or she is appointed, is provided for in the LM's staff establishment of the municipality as approved by the council.

7.6.2. Any person who takes a decision knowing that such decision is unlawful will be held personally liable for any irregular or fruitless and wasteful expenditure that the municipality may incur as a result of such invalid decision.

7.6.3 Officials and councillors must ensure that all instances of fruitless and wasteful expenditure are prevented where possible, and are detected and reported in a timely manner.

7.7 Community members deliberately supplied information to benefit on indigent subsidy such as paraffin, electricity or write off debt for rates and taxes. That community member having been approved by ward councillor such benefit must be reported to SAPS as fraud.

8. FRUITLESS AND WASTEFUL EXPENDITURE

8.1. All officials and councillors must always act cautiously when spending public money and ensure that they abide by the public and accountability principles which are to promote "efficient, economic and effective use of resources and the attainment of value for money".

8.2. Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

8.3. This type of expenditure is incurred where no value for money is received for expenditure or the use of resources. No particular expenditure is explicitly identified by the MFMA as fruitless and wasteful.

8.4. Expenditure incurred that has been budgeted for (authorised) and was not regarded as irregular expenditure could be classified as fruitless and wasteful expenditure.

8.5.1 An expense is only fruitless and wasteful in terms of this policy if:

- (i) It was made in vain (meaning that the municipality did not receive value for money) and;
- (ii) and would have been avoided had reasonable care been exercised (meaning that the official or councillor concerned did not carelessly or negligently cause the expenditure to be incurred by the municipality furthermore another official or councillor under the same circumstances would not have been able to avoid incurring the same expenditure)

8.5.2 In determining whether expenditure is fruitless and wasteful, officials and councillors must apply the requirement of reasonable care as an objective measurement to determine whether or not a particular expenditure was fruitless and wasteful, that is-

- a) Would the average man (in this case the average experienced official or councillor) have incurred the particular expenditure under exactly the same conditions or circumstances? and
- b) Is the expenditure being incurred at the right price, right quality, right time and right quantity?

8.6 Officials and councillors must ensure that all instances of fruitless and wasteful expenditure are prevented where possible, and are detected and reported in a timely manner.

9 REPORTING ON UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

9.1. Reporting of unauthorised, irregular, fruitless and wasteful expenditure must be done at the appropriate level, as this could constitute financial misconduct as follows:

- a) a Councillor of a municipality, must be reported to the Speaker of the council;
- b) The municipal manager and speaker must be reported to Council;
- c) Directors or the chief financial officer of a municipality must be reported to the municipal manager;
- d) All cases of prohibited expenditure reported as per a), b) and c) above must be referred to Municipal Public Accounts Committee or Audit Committee for investigation unless the allegations are frivolous, vexatious, speculative or obviously unfounded; and

e) Officials below executive management level of the municipality must be reported to the CFO unless in the professional opinion of the CFO or MM the nature or the amount of the prohibited expenditure warrants the case to be referred to Audit Committee and MPACC.

9.2. All reports made by officials, councillors must be treated with utmost confidentiality.

9.3. The MM must promptly inform the Mayor, the MEC for local government in the Province and the Auditor-General, in writing, of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality:

a) Whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and

b) The steps that have been taken:

c) To recover or rectify such expenditure; and

d) To prevent a recurrence of such expenditure.



Lukhanji Local Municipality
Asset Management Policy

Prepared by Chief Financial Officer

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Table of Contents

1	Background	250
2	Definitions and Terminology	251
3	Legal and Regulatory Framework	257
4	Introduction	258
5	Asset Management Strategy	260
6	Roles & Responsibilities	262
7	Asset Life-Cycle	268
8	Transfer of property plant and equipment	277
9	Assets to be Written Off	278
10	The Required format of the Asset Register	279
11	Classification of Assets	282
12	Assets Accounting and Reporting	285
13	Asset Useful lives	294

1 Background

The Lukanji Local Municipality (LLM) has made a significant investment in various assets used mainly to fulfil its responsibilities for:

1. Delivery of sustainable services,
2. Social and economic development,
3. Promoting safe and healthy environments, and
4. Providing for the basic needs of the community.

As custodians on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in these assets. The purpose of this policy is to therefore ensure that the municipality's assets are acquired,

safeguarded, controlled, disposed of and accounted for in accordance with the Municipal regulations, the Municipal Finance Management Act (Act no. 56 of 2003), Auditor General's requirements, applicable accounting pronouncements, such as General Recognized Accounting Practices (GRAP), and in an appropriate manner applicable to the management and control of assets.

Statutory provisions have been implemented to protect public property against arbitrary and inappropriate management or disposal by a local government. The Accounting Standards Board per instructions of the Accountant General, to ensure the appropriate financial treatment for property, plant and equipment, has adopted certain accounting standards. The requirements of these new accounting standards include:

- a) The compilation of asset registers covering all property, plant and equipment controlled by the municipality;
- b) Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment;
- c) The standards to which these financial records must be maintained.

This Asset Management Policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of property, plant and equipment. This stewardship is comprised of two components being the:

- i. Financial administration by the Chief Financial Officer; and
- ii. Physical administration by the individual Asset Controller (s)

2 Definitions and Terminology

Terminology	Definition
Accounting Standards Board	Was established by the Public Finance Management Act to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa
AMP	Asset Management Policy

Terminology	Definition
AO	Accounting Officer
Acquisition cost	When a Municipality initially recognises assets such as items of property, plant and equipment, investment properties, intangible assets and heritage assets using the Standards of GRAP, it measures those assets using either cost (if the asset is acquired in an exchange transaction) or at fair value (if the asset is acquired in a non-exchange transaction). This cost or fair value on initial acquisition of an asset is the acquisition cost.
Assets	Are resources controlled by a Municipality as the result of past events and from which future economic benefits or potential service provision are expected to flow to the Municipality
Asset Categories	Are the six main asset categories defined by and GRAP 17. These are:
Infrastructure assets	Are defined as any asset that is part of a network of similar assets. It is specialised in nature and does not have an alternative use. It is immovable and may be subject to constraints on disposal.
Heritage assets	Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Terminology	Definition
Community assets	Are defined as any asset that contributes to the community's wellbeing, eg. parks, libraries and fire stations
Investment assets	Are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
Intangible assets	Are defined as identifiable non-monetary assets without physical substance
<i>Other assets</i>	Are defined as assets utilised in normal operation, eg. plant and equipment, motor vehicles and furniture and fittings
Capilisation	Is the recognition of expenditure as an Asset or Inventory item in the Asset Register
Carrying amount	Is the amount at which an asset is included in the Statement of Financial Position after deducting any accumulated depreciation thereon
CFO	Chief Financial Officer
Cost	Is the amount of cash or cash equivalent paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction plus costs incidental to the acquisition or acquirement. Also known as historical cost/value.

Terminology	Definition
Cost of acquisition	Are all the costs incurred in bringing an item of plant, property or equipment to the required condition and location for its intended use
Deemed cost	Deemed cost is a surrogate value for the cost or fair value of an asset at its initial acquisition, and is determined by reference to the fair value of the asset at the date of adopting the Standards of GRAP measurement date).
Deferred maintenance	Is the extent of preventative maintenance that has not been performed
Depreciation	Is the systematic allocation of the depreciable amount of an asset over its useful life
Depreciable amount	Is the cost of an asset, or the other amount of an asset, or other amount substituted for cost in the financial statements, less its residual value
Fair value	Is the amount for which an asset could be exchanged between knowledgeable willing parties in an 'arms length' transaction
LLM	Lukanji Local Municipality
Finance Lease	A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Terminology	Definition
	An operating lease is a lease other than a finance lease.
Fixed asset register	Is the controlled register recording the financial and other key details for all municipal assets recognised in accordance with this policy
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
Impairment	Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.
PPE - Property, plant and equipment	Are tangible assets that: (a) Are held by a municipality for use in the production of goods and services, for rental to others, for administrative purposes; and
Recognition	The cost of an item of PPE shall be recognised as an asset only if: (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and (b) The cost or fair value of the item can be measured reliably
Recoverable amount	Is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal
Replacement value	Is the amount which is needed in current terms to replace an asset

Terminology	Definition
Residual value	Is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal
Stewardship	Is the act of taking care of and managing property, plant or equipment on behalf of others
Useful life	Is either: (a) The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality, or (b) The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality

3 Legal and Regulatory Framework

The statutory framework for this policy is:

- a) The Constitution of the Republic of South Africa, 1996
- b) Municipal Systems Act, 2000
- c) Municipal Finance Management Act, 2003.
- d) The Constitution's prime mandate for Local Government is that services are
- e) provided in a sustainable manner. (Section 152)
- f) The MSA in sections 4(2)(d) states that a municipality has the duty to -
- g) strive to ensure that municipal services are provided to the local community in
- h) a financially and environmentally sustainable manner.

Good asset management facilitates the provision of services in a financially sustainable manner.

As noted under the Scope, the MFMA (section 63) states specific duties in respect of asset management; each municipal manager must ensure that the provisions of S63 are implemented.

The accounting and reporting principles governing municipal assets are covered in more detail in standard specific guidelines and should be referred to in conjunction with the Local Government Capital Asset Management Guideline (LGCAMG). Some of the following standards were reviewed during the compilation of this policy, and they are:

- a) GRAP 17 on Property, Plant & Equipment (PPE)
- b) GRAP 16 on Investment Properties
- c) GRAP 102 on Intangible Assets
- d) GRAP 100 on Non-current Assets Held for Sale and Discontinued Operations
- e) GRAP 101 on Agricultural Activities
- f) IAS 36 on Impairment of Assets.
- g) Other relevant accounting standards are:
- h) GRAP 12 on Inventories

i) GRAP 11 on Construction Contracts.

Together with the statutory framework and relevant accounting standards, this asset management policy covers the roles and responsibilities, asset life-cycle management processes and the accounting treatment of LLMs assets.

4 Introduction

An asset is defined in GRAP 17 as a tangible item of property, plant or equipment held by a Municipality for use in the productions or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).

An asset is thus either movable or fixed/immovable, under the control of the Municipality, and from which the Municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

An asset held under a finance lease, shall be recognised as a Municipal asset, since the Municipality has control over the leased assets.

Legislation such as the Municipal Finance Management Act (MFMA) and the size of the Lukanji Local Municipality's (hereafter named LLM) operations highlights the critical importance of asset management. It is therefore important to note that all assets acquired on behalf of LLM must be for the efficient, effective and economical use and aid the Municipality to attain and maintain its service delivery objectives. The Municipality has a responsibility and an obligation to ensure that assets which require periodical maintenance are properly maintained in order to realise the intended benefit from the procured asset. Also, assets no longer needed to deliver services, must be declared for further transfer to areas where needed or to be disposed of in the appropriate manner.

Individuals entrusted with LLM's assets have to properly utilize such assets to ensure that the intended benefit to be derived is realised.

Adequate security measures to safeguard the LLM's assets must be adhered to; and must aim to ensure that loss or theft of assets is minimized.

Assets acquisitions, movements, transfer and disposals policies and procedures must be adhered to at all times to ensure that the assets recorded in the Assets Register and funding sources are correctly identified and recorded appropriately. Disciplined asset management from the individual asset user up to top management must ensure that this is achieved.

This policy is applicable to all Customer Care Centres, Departments and all Municipal structures offices within the LLM.

The objective of this policy is to:

- a) To ensure the effective and efficient control, utilization, safeguarding and management of the LLM's property, plant and equipment are achieved.
- b) To ensure that the Functional Heads are aware of their roles and responsibilities regarding property, plant and equipment.
- c) To set out the standards of physical asset management, recording and internal controls to ensure property, plant and equipment are safeguarded against loss and/or inappropriate utilisation.
- d) To specify the processes required for acquisition, transfer and disposal of assets.

5 Asset Management Strategy

The goal of asset management is to achieve the required level of service in the most cost effective manner, which is achieved through management of the asset's life cycle.

To be effective, asset management in municipalities should include the following:

- a) Service level needs, identified in the IDP process, drive asset management practices and decision-making;
- b) Asset management plans that are an integral part of the municipal planning process;
- c) Asset acquisition decisions that are based upon the evaluation of alternatives, including demand management and non-asset solutions;
- d) Asset acquisition proposals that include a full business case, including costs, benefits and risks across each phase of an asset's life cycle;
- e) Defined responsibility and accountability for performance, safe custody and use.
- f) Disposal decisions based upon an analysis of disposal options, designed to achieve the best possible return for the municipality and made in accordance with the provisions of the MFMA;
- g) Sound risk-based internal controls supporting all asset management practices.
- a)

5.1 Key Strategy Principles

Effective asset management will:

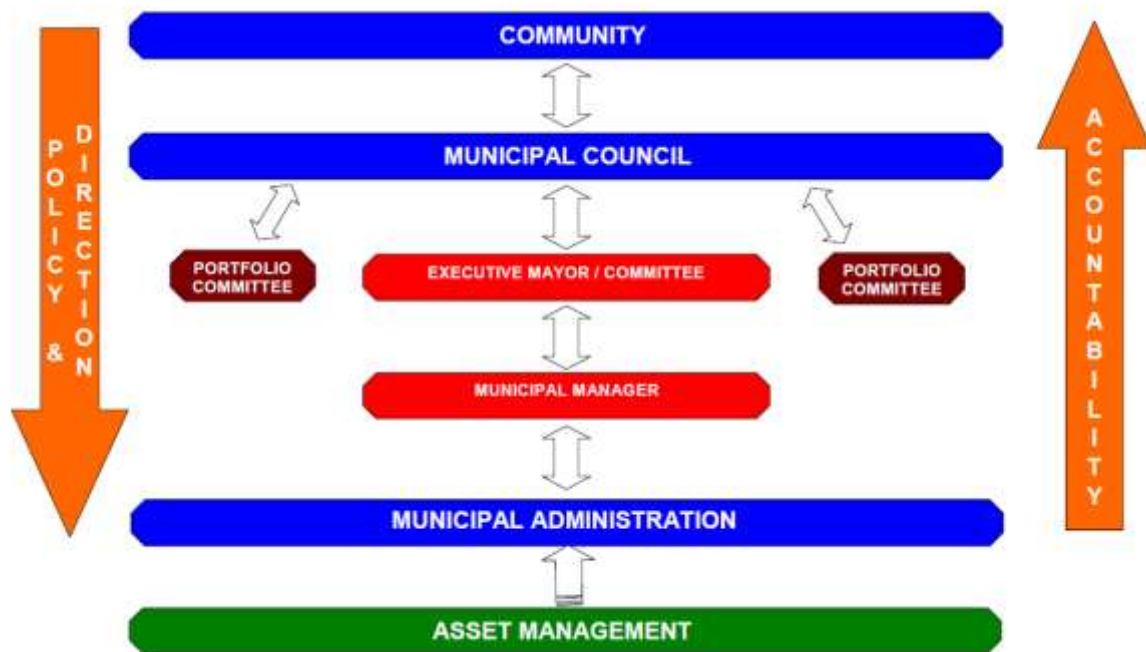
- a) maximise the service potential of existing assets by ensuring that they are appropriately used; maintained, safeguarded and that risks are mitigated;
- b) optimise the life cycle costs of owning and using these assets by seeking cost-effective options throughout an asset's life cycle;
- c) reduce the demand for new assets through optimal use of existing assets and management of demand through the use of non-asset service delivery options; and
- d) establish clear lines of accountability and responsibility for performance.

LLM is working towards adopting a fully integrated approach to asset management:

- a) taking the municipal strategy, converting that into an asset management strategy and producing plans based upon an analysis of service delivery options;
- b) formulating an asset management strategy consisting of detailed plans for acquisitions and replacements, operation and maintenance as well as disposals in terms of the municipality's policies;
- c) informing the IDP (and revised IDP) and then the annual budget, using the detailed plans;
- d) funding each approved asset management plan appropriately through the budget;
- e) including in the Service Delivery and Budget Implementation Plan (SDBIP) the measurable objectives and targets of each asset management plan;
- f) reporting on the performance of assets as measured in terms of service delivery based upon an approved SDBIP, budget and IDP.

6 Roles & Responsibilities

LLM has a clear and up-to-date system of delegations and accountability within the administration, and between the administration and municipal council. The council is ultimately accountable to the wider community. The municipality has clear monitoring and reporting lines between asset managers, senior managers, municipal manager, executive mayor and municipal council.



6.1 The Mayor must:

- Approve the temporary and/or permanent transfer of all moveable assets exceeding approved limits, as stipulated in the “Powers of Delegation” of the municipality and
- Approve the writing-off, disposal of obsolete or redundant assets.

6.2 Role of the Municipal Manager (MM)

The Municipal Manager shall ensure that the Municipality maintains an asset identification system, which shall be operated in conjunction with its computerised assets register.

The identification system shall be determined by the Municipal Manager, acting in consultation with the CFO and other Heads of Departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor General as indicated in the LLM's audit report(s), and shall be decided upon within the context of the LLM's budgetary and human resources.

Every Functional Head shall ensure that the asset identification system approved for the LLM is meticulously applied in respect of all assets controlled or used by the Department in question.

As the accounting officer of the Municipality (section 63 of the MFMA), the Municipal Manager shall be the principal custodian of all the Municipality's assets, and shall be responsible for ensuring that the asset management policy is meticulously applied and adhered to.

The Municipal Manager must ensure that:

- a) the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- b) the municipality's assets are valued in accordance with standards of generally recognised accounting practice;
- c) the municipality has and maintains a system of internal control of assets, including an asset register; and
- d) Senior managers and their teams comply with this policy and that this asset management policy is reviewed annually.

6.3 Role of the Chief Financial Officer (CFO)

The CFO is responsible to the municipal manager for ensuring that the financial investment in the municipality's assets is safeguarded and maintained.

The CFO must ensure that:

- a) Appropriate systems of financial management and internal control are established and carried out diligently;
- b) The financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently;
- c) Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- d) The systems, processes and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Treasury and the Auditor General;
- e) Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions;
- f) The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- g) The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- h) The CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring that these activities are performed.

6.4 Asset Management Section (AMS)

This section consists of officials that operate at corporate level and some deployed within the finance and asset management section. The officials in this section are not accountable for physical assets dedicated to the Functional Head's or Asset Users.

Some critical duties of AMS include the following tasks:

- a) Maintain the asset register by recording all asset acquisitions purchased by LLM.
- b) Maintain asset the audit evidence for items recorded on the asset register.
- c) Perform asset verification, bi-annually.
- d) Conduct, manage and facilitate an asset disposal process annually.
- e) Facilitate and manage the transfer of LLM's assets; internally between the various units (sections) and end-users, as well as between external government bodies
- f) Facilitate and manage auctioning of LLM's assets, and/or asset donations etc.
- g) Capture and maintain accurate records and asset information on LLM's financial management system.
- h) Maintain and adhere to the internal controls enforced by the CFO and senior management
- i) Maintain and adhere to the statutes stipulated by National Treasury in terms of best practise asset management accounting

6.5 Heads of Departments (Functional Heads)

Functional Heads must ensure that:

- a) The appropriate internal controls (including asset internal control processes) are established and carried out for assets in their area of responsibility.
- b) The municipal assets assigned to them are utilized effectively, efficiently, economically and transparently.
- c) Any unauthorized, irregular, fruitless or wasteful utilization, and losses resulting from criminal or negligent conduct, is prevented.
- d) The management controls that they implement and enforce can provide an accurate, reliable and up-to date account of assets under their control.
- e) They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally in order achieve the Municipality's strategic objectives.
- f) They nominate officials to support the Asset Management Unit to perform physical verification, stocktaking of all assets bi-Annually.

The Functional Head may nominate officials who shall safeguard the assets on their behalf, but they shall remain accountable for ensuring that these activities are performed.

Every Functional Head is, in terms of the employment contract, directly responsible for the physical safekeeping of any asset controlled or used by the Department in question.

In exercising this responsibility, every Functional Head shall adhere to all written directives issued by the Municipal Manager to the Department in question, or generally to all Departments, regard the control of or safekeeping of the LLM's assets.

Every Functional Head shall ensure that any incident of loss, theft, destruction, or material impairment of any asset controlled or used by the Department in question is promptly reported in writing to the CFO, to the internal auditor and in cases of suspected theft or malicious damage, also to the South African Police Service.

6.6 Asset Control Committee (ACC)

Finance Committee will serve as Asset Control Committee (ACC) which will be responsible only in an advisory capacity to assist the Asset Management Section with the formulation of policy, procedures and updating of the Asset Management Policy and Procedures Manual.

The committee meets quarterly, and as and when necessary.

Functional Heads must forward details of asset/s loss/es or damage/s to the Asset Control Committees for further investigation.

6.7 Asset Users

Listed below are the responsibilities of all LLM's officials utilising or entrusted with assets:

- a) Each user is responsible for the assets under their control, allocated to/used by them in the performance of their duties.
- b) Each user must sign an asset inventory list (movable assets list) containing the barcoded assets allocated to them. These lists must be visibly displayed for audit

purposes, preferable at the back of the doors. The Asset Management Unit must keep copies of the movable assets lists.

- c) Asset users are prohibited to move/transfer assets from the location recorded in the asset register without proper authorisation from the Asset Management Unit.
 - d) Each user must take all reasonable precautions to protect their assets against losses and/or damage.
 - e) Each user must maintain or take steps to maintain their assets for their useful life. Users must check and verify their physical assets against their assets lists regularly and ensure that changes in physical assets in their possession are updated in their assets lists.
 - f) Any damage to the asset items must be immediately reported to superiors as well as to Asset Management Unit who will advise on the appropriate steps to be taken in relevant incidents.
 - g) The assets users must avail assets under their control at any time, at the request of the LLM or the Asset Management Section or External Audit or Internal Audit Section for verification purposes.
-
- b) In the event of such assets being missing stolen or lost, the responsible user shall accordingly report the incident to the SAPS. The reported case information will be the source document used to report missing/stolen/lost assets to their superiors, as well as to their responsible Asset Controllers who will take further appropriate action in the relevant incidents.
 - c) Should it be found that users were not properly utilizing/maintaining/securing assets under their control/stewardship leading to asset/s damages/losses such users' Functional Head must recover the replacement costs of such assets from relevant users.
 - d) On resignation, the user must complete the Exit Clearance form have it signed by all the parties concerned (Functional Head, Asset Management Unit etc.), to ensure that all assets have been handed back to LLM, in working condition.

7 Asset Life-Cycle

A clear understanding of asset life-cycle costs is crucial for the development of cost-effective asset management plans and options. Knowledge of these asset life-cycle costs is also a legislative requirement. The analysis of life-cycle costs should cover the four broad phases, thus covering the entire life of the asset, including any environmental rehabilitation at the end of its life.

This analysis will be based upon estimates and include all cash flows such as operation, maintenance, administration, capital, and financing costs. The budget should have a split between capital and operational costs including depreciation.

These are typical asset life-cycle costs:

- a) Planning-phase costs. These costs include items such as concept design costs, scientific studies, environmental impact studies and feasibility studies. These costs are usually incurred when weighing up the different options, before deciding on the best option, and are excluded from the cost of an asset.
- b) Acquisition-phase costs & revenues. An example of these are; special levies, purchase price / construction costs (labour, materials, and components), detailed design costs (not feasibility analysis), transportation costs, installation and commissioning cost, use of own assets in construction (limited to depreciation over duration of use), freight, legal fees, warehousing costs, initial consumables (e.g. initial set of tyres for a vehicle) and all other costs required to bring that asset to its proper working condition and location for intended use (excluding training on use of the new asset, should this be required).
- e)
- c) Operation and maintenance-phase costs:
 - i. **Operation** - fuel or energy costs, operational labour, security costs, safety costs, training costs, performance monitoring costs, cleaning costs and consumables.
 - ii. **Maintenance** - spare parts and repair labour.
 - iii. **Administration (asset specific)** - insurance, rates and taxes, management fees, etc.

iv. **Rehabilitation and renewal** - upgrade costs, modification costs if this improves asset life (capital), re-training costs (current), etc.

v. **Asset-related receipts** – tariffs, rates and equitable share (only to the extent that it relates to this asset acquisition).

d) Disposal-phase costs:

f) An example of disposal costs (like auctioneer fees, etc.) would be; storage costs, environmental rehabilitation costs, decommissioning costs, demolition costs and etc.

g)

Also, before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider:

a) the projected cost covering all financial years until the project is operational; and

b) the future operational costs and revenue on the project, including municipal tax and tariff implications.

c) (d) tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs,

d) and interest charges;

e) tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned; the extent of subsidisation of tariffs for poor households and other categories of users should be fully disclosed.

Asset Life-Cycle is the cycle of activities that an asset goes through – including planning, design, initial acquisition and/or construction, cycles of operation and maintenance and capital renewal, and finally disposal.

This policy will address the process LLM has adopted for all phases within the asset life cycle.

7.1 Planning

The identification of assets needs and financing options, where the requirement for a new/replacement asset is planned for and established, must be done at the planning stage.

7.1.1 Financial Planning

Property, Plant and Equipment financial planning and decision making must be informed by the Integrated Development Plan (IDP) and strategic business initiatives in line with prevailing economic conditions and the Municipality's financial affordability.

7.1.2 Pre -Acquisition Planning

Before a capital project is included in the budget for approval, the Functional Head must demonstrate that they have considered:

- a) The projected cost over all the financial years including initial setup costs;
- b) The future operational costs and revenue on the project, including tax and tariff
- c) implications;
- d) The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- e) The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and
- f) rehabilitation;
- g) The inclusion of this capital project in the IDP and future budgets: and
- h) Alternatives to this capital purchase.

7.1.3 Approval to Acquire Property Plant and Equipment

This can only be approved on a capital asset/project if:

- a) The funds for the project have been appropriated in the capital budget,
- b) The project, including the total cost, has been approved by the LLM Council,

- c) The CFO confirms that funding is available for that specific project. (Any contract that will impose financial obligations beyond two years after the budget year must be appropriately disclosed)

7.1.4 Capital Projects Funding Planning

Within the Municipality's on-going financial, legislative or administrative capacity, the CFO will establish and maintain the funding strategies that optimise the Municipality's ability to achieve its strategic objectives as stated in the IDP.

The acquisition of assets shall not be funded over a period longer than the useful life of that asset.

7.1.5 Replacement Planning

- a) Property, Plant and Equipment are to be replaced when:
 - i. They have reached the end of their useful or economic life (i.e. when the asset is fully depreciated); and the cost of maintaining such asset outweighs the economic benefit,
 - ii. they have been lost, stolen, damaged beyond repair; or
 - iii. they have been determined as obsolete, provided there is a continuing need for the services provided by such an asset.
- b) The future usefulness of an asset should be assessed continuously especially when the asset is fully depreciated. If it is found that there is no evidence of any continuing need, the asset should not be replaced, and if it still in good working condition; the asset could be transferred to where the need for such asset can still be identified. (AMS has a facility to publish on the intranet movable assets that are still in good condition on behalf of Departments) The selling of such assets should result as quickly as possible if there is no longer a need for such an asset.
- c) The asset will only be replaced if:
 - i. It has reached the end of its economic life,
 - ii. It was lost, stolen or non-repairable,
 - iii. It has become unserviceable,
 - iv. It is not economical to continue using the asset when a replacement would ultimately bring economic saving benefit,
 - v. It has been superseded by a later or more technologically superior model and;

- vi. There is a continuing need for the service provided by the asset in question or economic benefit.

7.2 Acquisition of property, plant and equipment

The Property, Plant and Equipment acquisition phase take effect through outright purchase or development/construction. Such Property, Plant and Equipment acquisitions must only be funded out of capital budget votes in line with IDP and not through the operational budget.

7.2.1 Physical Receipting and Management

The Functional Head or his/her nominee must:

- a) Ensure that the purchase of property, plant or equipment complies with all LLM's policies and procedures.
- b) Ensure all movable assets received into their stewardship are appropriately identified and safeguarded or prevented from inappropriate usage or loss. This will include appropriate control over the physical access to these assets and regular stock takes to ensure any losses do not occur. Any known losses should be immediately reported to the CFO.
- h)

7.2.2 The date of acquisition

The date of acquisition of property, plant and equipment is deemed to be the time when legal title and control passes to the Municipality.

7.2.3 Donations

The CFO must be informed about any donation to LLM and form "Asset 001" must be submitted to the AMS. Where an item of property plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the assets register if the fair value is greater than the recognition threshold. Where the value of the asset is known, such value shall be

included in the register in line with recognition criteria. It shall be the responsibility of the Functional Head or his/her nominee to notify the CFO and AMU of such assets for capitalisation purposes.

The Municipal Manager or his/her delegated official shall authorize all capital assets donated through inter LLM Council donations, or public, individuals, private enterprises, Provincial or National Government, to the Municipality, prior to capitalisation.

7.3 Maintenance of property, plant and equipment

Accountability for the operation and maintenance of all assets is delegated from the municipal manager, through the senior managers, to the asset manager. The asset manager is accountable for ensuring that municipal resources assigned to him/her are utilised effectively, efficiently, economically and transparently.

This would include:

- a) complying with systems of management and internal controls established by the municipality;
- b) preventing inappropriate losses;
- c) appropriately managing, safeguarding and maintaining assigned assets; and
- d) providing all asset-related information as and when required.

The asset manager will delegate custodianship of assets to specific users.

The custodians will be required to perform functions assigned to the asset manager in respect of their specific assets.

7.3.1 Maintenance Plans

Every Functional Head shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Municipal Manager for approval. The maintenance plans contemplated in these are subject to budgetary provision in terms of the normal budget process.

If so directed by the Municipal Manager, the maintenance plan shall be submitted to the LLM Council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The Functional Head controlling or using the infrastructure asset in question, shall annually report to the Municipal Manager 5 of the LLM, not later than in July, of the extent to which the relevant maintenance plan has been complied with.

7.3.2 Deferred Maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.

Such note shall also indicate any plans, which the authoritative body of the LLM has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the CFO shall re-determine the useful operating life of the asset in question if necessary, in consultation with the Functional Head controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

7.3.3 General Maintenance of Assets

Every Functional Head shall be directly responsible for ensuring that all assets are properly maintained and in a manner, which will ensure that such assets attain their useful operating lives.

7.4 Disposal phase of property plant and equipment

The MFMA (section 14 & 90) and the Municipal Supply Chain Management Regulations have specific requirements regarding the disposal of assets. Specifically:

- a) LLM will permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.
- b) Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Where assets have been identified as under-performing, or no longer functionally suited for basic service-delivery needs, consideration should be given to the possible alternatives to disposal.

A factor to consider is whether utilisation can be increased (for example by adapting the asset to another function or using it in another programme).

The cost benefit of such alternatives should be included in the disposal strategy.

Reasonable grounds for determining that a capital asset is not required for the provision of the minimum level of basic municipal services may include:

- a) The asset was acquired specifically for resale or distribution, e.g. investment property or stands held for distribution
- b) The asset is impaired (in respect of which the asset custodian can provide evidence).
- c) The municipality no longer performs the function for which the asset was purchased, e.g. the case of a clinic where the province has taken over that healthcare function.
- d) It is an immovable asset no longer located close to where the service is required, e.g. a taxi rank on a disused road.
- e) The asset has been replaced.
- f) The asset no longer performs the required level of service.
 - i)

Processes should be in place to ensure that:

- a) under-utilised and under-performing assets are identified as part of a regular systematic review process;
- b) the reasons for under-utilisation or poor performance are critically examined, and corrective action taken to remedy the situation or a decision to dispose of the asset is made;
- c) the analysis of disposal methods takes into consideration the potential market or other intrinsic values; the location and volume of assets to be disposed of; the ability to support other government programmes; and environmental implications;
- d) regular evaluation of disposal performance is undertaken.

To ensure that a disposal is fair, equitable, transparent and competitive, the

Following should happen:

- a) The supply chain management policy should state the mechanism for determining the market value for different types of assets.
- b) The process should be open to the public and public scrutiny.
- c) Consideration should be given to the fair market value of the asset, and to the economic and community value to be received in exchange for the asset.
- d) Reasonable efforts should be made to ensure that an appropriately competitive process for disposal is adopted.

Council or the municipal manager (where delegated) will need to know what the expected market price is in order to demonstrate that it has considered the market value of that asset.

In compliance with the principles and prescriptions of the MFMA, the transfer of ownership of any asset shall be fair, equitable, transparent, competitive and consistent with the Municipality's supply chain management policy.

Every Functional Head shall report in writing to the CFO on 31 October and 30 April of each financial year, on all assets controlled or used by the Department concerned which such Functional Head wishes to alienate by public auction or public tender. The CFO shall thereafter consolidate the requests received from the various Departments, and shall promptly report such consolidated information to the LLM or the Municipal Manager, as the case may be, recommending the process of alienation to be adopted.

The disposal of capital assets must be dealt with in terms of Section 14 of the Municipal Finance Management Act in conjunction with the relevant delegated powers as approved by Council from time to time.

Once the assets are alienated, the CFO shall delete the relevant records from the assets register.

If the proceeds of the alienation are less than the carrying value recorded in the assets register, such difference shall be recognised as a loss in the income statement of the vote concerned.

If the proceeds of the alienation, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain in the income statement of the vote concerned. All gains realised on the alienation of assets shall be appropriated annually to the Municipality's asset financing reserve (except in the cases outlined below), and all losses on the alienation of assets shall remain as expenses on the income statement of the vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the assets of any vote, only the net gain (if any) on the alienation of such assets shall be appropriated.

Transfer of assets to other municipalities, municipal entities (whether or not under the Municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

8 Transfer of property plant and equipment

8.1 Permanent transfers to another Functional Head

- a) The Functional Head retains managerial accountability and control for a particular asset unless;
 - i. Another Functional Head agrees in writing to accept responsibility for that assets, and
 - ii. The CFO or his/her nominee endorses this transfer.
- b) The Finance Department appropriately amends the Assets Register for all approved transfers.
- c) The new Functional Head assumes all the accountabilities of the previous Functional Head.

8.2 Relocation or Reassignment of Property, Plant or Equipment

The Functional Head must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions.

The Functional Head must advise the CFO whenever an asset is permanently relocated or reassigned from the location (or base) or cost centre recorded in the Assets Register.

The Functional Head must advise the CFO whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the Asset Register. In this case, the Functional Head must also advise the CFO when this asset is retu

9 Assets to be Written Off

An asset, even though fully depreciated shall be written off only on the recommendation of the Functional Head controlling or using the asset concerned, and with the approval of the LLM Council.

Every Functional Head shall provide the CFO, before year end, with a list of all assets, which they wish to have written off, stating in full the reason for such recommendation.

The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the LLM Council on the assets to be written off.

The normal disposal of written-off assets is through auction but the LLM Council may decide on any other method as deemed fit in line with LLM's supply chain management policy. Writing off of assets not fully depreciated should be avoided since there is direct financial implication on operating revenue. Preferably, fully depreciated assets may be written off. In every instance where a not fully depreciated asset is written off, the CFO shall effect such accounting adjustments in terms of appropriate accounting standards.

10 The Required format of the Asset Register

The assets register shall be maintained in the format determined by the CFO, which format shall comply with the requirements of generally recognised accounting practice (GRAP).

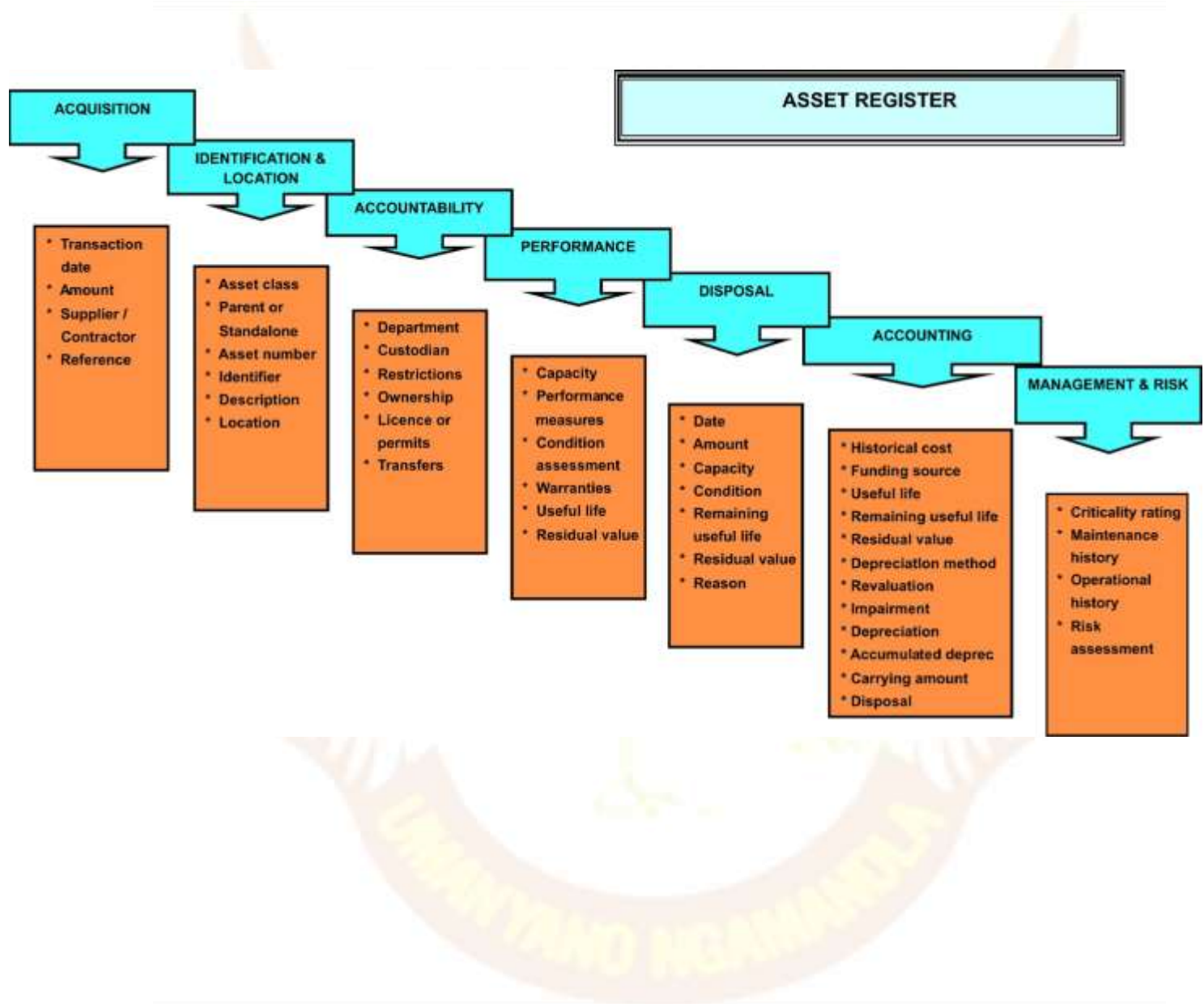
The assets register shall reflect the following information:

- a) A brief but meaningful description of each asset.
- b) The date on which the asset was acquired or brought into use.
- c) The location of the asset.
- d) The vote(s) within which the assets will be used.
- e) The title deed number, in the case of property.
- f) The stand number, in the case of property.
- g) The original cost, or the re-valued amount determined in compliance or the fair value if no costs are available.
- h) The (last) revaluation date of the assets subject to revaluation.
- i) The re-valued value of such assets.
- j) References to supporting documentation to support re-valuation
- k) Accumulated depreciation to date.
- l) The depreciation charge for the current financial year.
- m) The carrying value of the asset.
- n) The method and rate of depreciation.
- o) Impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- p) The source of financing.
- q) The current insurance arrangements.
- r) Whether the asset is required to perform basic municipal services.
- s) Whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements.
- t) The date on which the asset is disposed of.
- u) The disposal price.

v) The date on which the asset is removed from operations, if not disposed of.

j)

These fields have been depicted in pictorially to indicate and show their importance



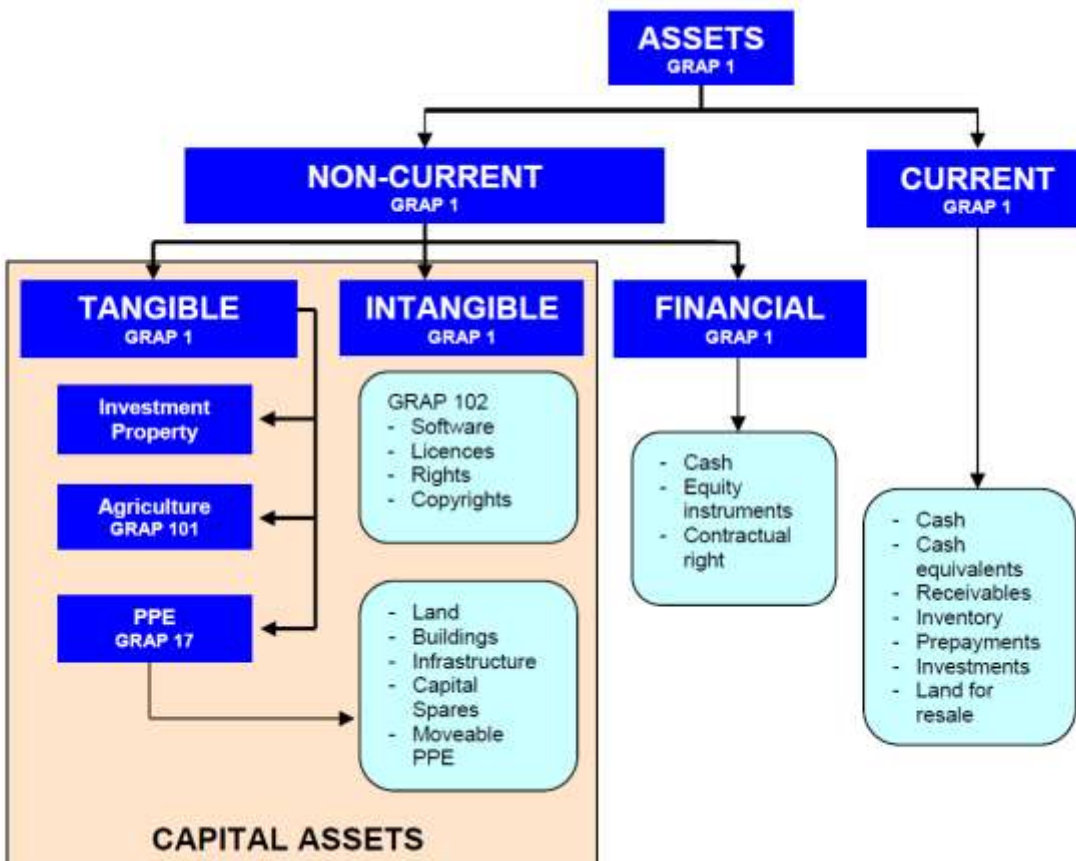
An asset shall be capitalised, that is, recorded in the assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as Work In Progress until it is available for use, where after it shall be appropriately capitalised as an asset.

An asset shall remain in the assets register for as long as it is in physical existence.

The fact that an asset has been fully depreciated shall not in itself be a reason for writing off such an asset.

11 Classification of Assets

When accounting for capital assets, municipalities should follow the various standards of GRAP relating to the capital assets. The diagram below indicates the various standards that impact the accounting for capital assets as well as the relation between the capital assets and other assets.



Class of Property, Plant and Equipment means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements. (GRAP 17) (This definition of class applies to all capital assets.)

Class of assets is also sometimes referred to as the asset hierarchy.

In compliance with the requirements of the National Treasury, the CFO shall ensure that all assets are classified under the following headings in the assets register, and Functional Heads shall in writing provide the CFO with such information or assistance as is required to compile the proper classification

11.1 Property, Plant and Equipment

- a) Land (not held as investment assets)
- b) Infrastructure assets (assets which are of a network of similar assets)
- c) Community assets (resources contributing to the general wellbeing of the community)
- d) Heritage assets (culturally significant resources)
- e) Movable assets (ordinary operational resources)
 - i. vehicles
 - ii. furniture
 - iii. office equipment
 - iv. computer equipment
 - v. mobile plant

11.2 Inventory (*Housing (rental stock or housing stock not held for capital gain)*)

Any land or buildings owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the Municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the Municipality's statement of position.

Such inventories shall, however, be recorded in the assets register in the same manner as other assets, but a separate section of the assets register shall be maintained for this purpose.

11.3 Investment Property *(Investment assets /resources held for capital or operational gain)*

The CFO shall adhere to the classifications and useful lives stipulated in the Local Government Capital Asset Management Guideline, and in the case of an asset not appearing under the asset lives listing, the CFO shall use the classification applicable to the asset most closely comparable to the asset in question. Investment assets shall be accounted for in terms of IAS 40 and shall not be classified as property, plant and equipment for purposes of preparing the Municipality's statement of position.

Investment assets shall comprise land or buildings (or s of buildings) or both held by the Municipality, as the owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the assets register in the same manner as other assets, but a separate section of the assets register shall be maintained for this purpose.

Investment assets shall not be depreciated, but shall be annually valued on the balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the service controlling the assets concerned.

An expert valuer shall be engaged by the Municipality to undertake such valuations.

If the LLM Council resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

11.4 Heritage Assets

If no original costs or fair values are available in the case of one or more or all heritage assets, the CFO may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the assets register without an indication of the costs or fair value concerned. For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

11.5 Movable Assets

Movable assets are all assets with a life cycle of greater than one year and above the capitalisation threshold (where applicable). For example, this would include property, plant and equipment and intangible assets.

11.6 Donates Assets

Where an asset is donated to the Municipality or an asset is acquired by means of an exchange of assets between the Municipality and entities, the asset concerned shall be recorded in the assets register at its fair value, as determined by the CFO.

12 Assets Accounting and Reporting

12.1 Definition and recognition criteria for assets

A capital asset should be recognised as an asset in the financial and asset records when:

- a. it is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- b. the cost or fair value of the item to the municipality can be measured reliably;
- c. the cost is above any municipal capitalisation threshold (if any); and
- d. the item is expected to be used during more than one financial year.

12.2 Capitalisation Criteria: Material Value

- a) Buildings, infrastructure, all fixtures and other tangible and non-tangible assets of a non – consumable nature of which the value is R1 000 and more, and the normal expected life of which is one year and more will be treated as fixed assets and be capitalised as such; and
- b) All tangible property with a value of less than R1 000 will be funded from the capital budget and included in the fixed asset register for control purposes, but depreciated in full in the year of acquisition. These assets will therefore be recorded in the fixed asset register at a carrying value of R1.

12.3 Capitalisation Criteria: Reinstatement, Maintenance and other expenses

Only expenses incurred in the enhancement of an asset (in the form of improved or increased services or benefits flowing from the use of such asset) or expenses incurred in the material extension of the useful operating life of an asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of an asset shall be considered as operating expenses incurred, in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Expenses, which are reasonably ancillary to bringing into operation of an asset, may be capitalised as of such asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, and installation, assembly and communication costs.

12.4 Depreciation of Assets

All assets, except land and heritage assets, shall be depreciated or amortised in the case of intangible assets.

Depreciation may be defined as the monetary quantification of the extent to which an asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the vote in which the asset is used or consumed.

However, depreciation shall initially be calculated from the day following the day in which an asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the asset is brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated monthly.

Each Functional Head, acting in consultation with the CFO, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the Department in question or expected to be so controlled or used during the ensuing financial year.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

12.5 Rate of Depreciation

The CFO shall assign a useful operating life to each depreciable asset recorded on the Municipality's assets register. In determining such a useful life, the CFO shall adhere to the useful lives set out in terms of The Local Government Capital Asset Management Guideline.

In the case of an asset which is not listed in this annexure, the CFO shall determine a useful operating life, if necessary in consultation with the Functional Head who shall control or use the asset in question, and

shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

12.6 Method of Depreciation

The CFO shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

12.7 Impairment Review

Impairment is a loss in the future economic benefits or service potential of an asset, over and above depreciation.

Impairment means the carrying amount of an asset exceeds its recoverable amount or recoverable service amount. Indications for impairment should be assessed at each reporting date.

Cash-generating assets are those that are held to generate a commercial return.

An asset generates a commercial return when it is deployed in a manner consistent with that Non-cash-generating assets are assets other than cash-generating assets

The municipality will undertake the following when determining or considering impairing their assets:

- a) Review External Sources to determine if there are significant long-term changes in technology, market, economic, government or legal environment have taken place or will take place in the near future.
- b) Review internal Sources to determine if;
 - i. There is evidence of the obsolescence of or physical damage to an asset.
 - ii. Significant long-term changes in the operational environment will impact on the future expected use of the asset, e.g. discontinued operations, early disposal or reassessment of useful life.
 - iii. There is internal reporting that indicates worse than expected economic and/or service performance in respect of an asset or specific assets.
 - iv. Assets with significantly decreased remaining useful lives (includes various types of obsolesces);

- v. Assets with significantly decreased residual values;
- vi. Asset with significantly decreased replacement costs.

12.7.1 Specific to non-cash-generating assets

- a) Review external sources to determine if there is cessation, or near cessation, of the demand or need for services provided by the asset.
- b) Review internal sources to determine if a decision was taken to halt the construction of the asset before it is complete or in a usable condition.

12.7.2 Specific to cash-generating assets

- a) Review external sources to determine the following:
 - i. The market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and materially decrease the asset's recoverable amount.
 - ii. If an asset's market value has declined significantly during the reporting period, more than would have been expected as a result of the passage of time or normal use.

The impairment reduction should be recognised as an immediate expense, unless it reverses a previous revaluation in which case it should be charged to a "revaluation surplus". It is then necessary to link each asset to its impact on the "revaluation surplus" because a revaluation is usually based upon a class of assets whereas impairment could affect a single asset or class of assets. If an asset is impaired it should be written down to its recoverable amount.

12.8 Amendment of Asset Useful lives

Only the CFO may amend the useful operating life assigned to any asset.

The CFO shall amend the useful operating life assigned to any asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

If the value of an asset has been diminished to such an extent that, it has no or a negligible further useful operating life or value, such asset shall be dealt with in terms of the appropriate accounting standards. Similarly, if an asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the asset has physically ceased to exist, it shall be written off from the assets register.

In all the foregoing instances, any accounting adjustments shall be dealt with in terms of the appropriate accounting standards.

If any of the foregoing events arises in the case of a normally non-depreciable asset, and such asset has been capitalised at a value other than a purely nominal value, such asset shall be fully depreciated, as the case may be, as though it were an ordinary depreciable asset.

12.9 Alternative Methods of Depreciation in Specific Instances

The CFO may employ the sum of units method of depreciation in the case of assets which are physically wasted in providing economic benefits or delivering services.

The CFO shall only employ this method of depreciation if the Functional Head controlling or using the asset in question gives a written undertaking to the Municipal

Manager to provide:

- a) estimates of statistical information required by the CFO to prepare estimates of depreciation expenses for each financial year; and
- b) actual statistical information, for each financial year.

The Functional Head concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the CFO.

Where the CFO decides to employ the sum of units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the CFO shall inform the LLM of such decision.

12.10 Creation of Non-Distributable Reserves for Future Depreciation

The CFO shall ensure that in respect of all assets financed from the Municipality's asset financing reserve, or from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the Municipality, non-distributable reserve for future depreciation is created equal in value to the capitalised value of each asset in question.

The CFO shall thereafter ensure that in the case of depreciable assets an amount equal to the monthly depreciation expenses of the asset concerned is transferred each month from such non-distributable reserve to the Municipality's appropriation account. Where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, the CFO shall appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

12.11 Carrying Value for Assets

All assets shall be carried in the assets register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation.

The only exceptions to this rule shall be re-valued assets and heritage assets in respect of which no value is recorded in the assets register.

12.12 Revaluation of Assets

All land and buildings recorded in the LLM's assets register shall be re-valued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another Municipality, with the adoption by such Municipality of each new valuation roll).

The CFO shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the asset as recorded in the valuation roll, provided the CFO is satisfied that such value reflects the fair value of the asset concerned.

The CFO shall also, where applicable, create a revaluation reserve for each such asset equal to the difference between the values as recorded in the valuation roll and the carrying value of the asset before the adjustment in question.

The asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its re-valued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the vote controlling or using the asset in question.

The CFO shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such asset before the revaluation in question is transferred each month from the revaluation reserve to the Municipality's

appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

If the amount recorded on the valuation roll is less than the carrying value of the asset recorded in the assets register, the CFO shall adjust the carrying value of such asset by increasing the accumulated depreciation of the asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the vote controlling or using the asset in question.

Re-valued land and buildings shall be carried in the assets register, and recorded in the annual financial statements, at their re-valued amount, less accumulated depreciation (in the case of buildings).

12.13 Asset Verification

Every Functional Head shall at least twice during every financial year undertake a comprehensive verification of all assets controlled or used by the Department concerned.

Physical verification procedures:

- a) Prior identification of all locations at which assets are located.
- b) Areas to be counted are allocated to teams of counters.
- c) A systematic approach is taken to ensure a full physical verification (assets should not be omitted or double counted).
- d) All assets are verified at the same time to ensure no movement takes place to cover irregularities and avoid any double counting or omissions.
- e) In the event that verification cannot be performed at the same time, processes are put into place to ensure as little movement of the assets as possible and very strict written authorisation where movements are required.
- f) Before physical verification commences counters should be given written instructions on the verification procedures. Verbal instructions are given to reinforce the written instructions and to

ensure that the counters understand the procedures, know what is required and are familiar with follow-up procedures for resolving variances.

- g) The instructions clearly delineate the roles and responsibilities of all involved in the physical verification process. A practice asset verification session to illustrate the procedures may be helpful for those who have not previously participated in a physical count.
- h) Responsibility for the control of the physical verification rests with the asset count supervisor. The supervisor oversees the process to ensure that counting is carried out and that counters are following the procedures laid down.
- i) The asset count supervisor, together with the asset manager, secures (in advance to ensure availability) staff (other than members of the Asset Management Team (AMT)) to participate in the physical verification procedure as well as independent observers (individuals not ordinarily involved in asset management, for example the internal auditors).
- j) The master listing of assets should be available for verification and includes the following information:
 - i. Asset number;
 - ii. Description;
 - iii. Serial number;
 - iv. Last known location;
 - v. Custodian;
 - vi. Space for condition assessment.
- k) On the day prior to the physical verification procedure, the responsible AMT member verifies that:
 - i. all assets received on the day are entered into the system and, where applicable, a barcode label affixed;
 - ii. all movements in the assets under their control throughout the period of review are updated and fully accounted for on the system, and that barcode labels are affixed.
- l) On the day of the count:
 - i. staff conducting the physical verification:-
 - are assigned areas to count;

- are provided with the master listing of the assets;
- verify the assets within the assigned areas, taking care to identify the assets correctly;
- mark assets/attractive items once they have been counted to ensure they are only counted once;
- investigate discrepancies as directed by the supervisor and recount assets as requested

12.14 Replacement Norms

The Municipal Manager, in consultation with the CFO and other Heads of Departments, shall formulate norms and standards for the replacement of all normal operational assets.

Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the LLM Council for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of assets which are required for service delivery but which have become uneconomical to maintain.

12.15 Insurance of Assets

Movable assets shall be insured from date of delivery. The Municipal manager shall ensure that all movable assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

If the Municipality operates a self-insurance reserve (assuming such reserve to be allowed), the CFO shall annually determine the premiums payable by the Departments or votes after having received a list of the assets and insurable values of all relevant assets from the Functional Heads concerned.

The Municipal Manager shall recommend to the LLM Council, after consulting with the CFO, the basis of the insurance to be applied to each type of asset: either the carrying value or the replacement value of the assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.

The CFO shall annually submit a report to the LLM Council on any reinsurance cover which it is deemed necessary to procure for the Municipality's self-insurance reserve

13 Asset Useful lives

Local Government Capital Asset Management Guideline has the following asset useful lives as a guideline for municipalities. These should be used as a guide to the minimum useful lives only because actual asset lives experienced greatly exceed those recommend lives.

- a) Each Asset Controller, verifying assets, needs to determine the useful life of a particular item of property, plant and equipment (using these recommendations as a guide);
- b) The useful life of the item of property, plant and equipment should be reviewed annually.

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
INFRASTRUCTURE ASSETS	30	POWER STATIONS	360
	30	COOLING TOWERS	360
	30	TRANSFORMER KIOSKS	360
	20	ELECTRICITY METERS	240
	20	LOAD CONTROL EQUIPMENT	240
	20	SWITCHGEAR EQUIPMENT	240
	20	ELECTRICITY SUPPLY AND RETICULATION	240
	20	ELECTRICITY MAINS	240
	15	MOTORWAYS	180
	10	ROADS GRAVEL	120
	10	TRAFFIC ISLANDS	120
	20	TRAFFIC LIGHTS	240
	25	STREET LIGHTING	300
	30	OVERHEAD BRIDGES	360
	20	STORMWATER DRAINS	240
	30	BRIDGES SUBWAYS AND CULVERTS	360

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
	20	CAR PARKS	240
	20	BUS TERMINALS	240
	15	WATER METERS	180
	20	WATER MAINS	240
	20	WATER RIGHTS	240
	20	WATER SUPPLY AND RETICULATION	240
	20	WATER RESERVOIRS AND TANKS	240
	20	GAS METERS	240
	20	GAS MAINS	240
	20	GAS STORAGE TANKS	240
	20	GAS SUPPLY AND RETICULATION	240
	20	SEWERS	240
	20	OUTFALL SEWERS	240
	20	PURIFICATION WORKS	240
	15	SEWERAGE PUMPS	180
	15	SEWERAGE SLUDGE MACHINES	180
	20	FOOTWAYS	240
	20	KERBING	240
	20	PAVING	240
	20	APRONS	240
	20	RUNWAYS	240
	20	TAXIWAYS	240
	20	RADIO BEACONS	240
	3	FENCING	36
	5	SECURITY SYSTEMS	60

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
	5	ACCESS CONTROL	60

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
COMMUNITY ASSETS	30	AMBULANCE STATIONS	360
	30	AQUARIUMS	360
	30	BEACH DEVELOPMENTS	360
	30	CARE CENTRES	360
	30	CEMETERIES	360
	30	CIVIC THEATRES	360
	30	CLINICS AND HOSPITALS	360
	30	COMMUNITY CENTRES	360
	30	FIRE STATIONS	360
	30	GAME RESERVES AND REST CAMPS	360
	30	INDOOR SPORTS FACILITIES	360
	30	LIBRARIES	360
	30	MUSEUMS AND ART GALLERIES	360
	30	PARKS	360
	30	PUBLIC CONVENIENCES & BATHHOUSES	360
	30	RECREATION CENTRES	360
	30	STADIUMS	360
	30	ZOOS	360
	20	BOWLING GREENS	240
	20	TENNIS COURTS	240
	20	SWIMMING POOLS	240

	20	GOLF COURSES	240
	20	JUKSKEI PITCHES	240
	20	OUTDOOR SPORTS FACILITIES	240
	20	ORGAN AND CASE	240
	20	LAKES AND DAMS	240
	20	FOUNTAINS	240
	20	FLOODLIGHTING	240

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
OTHER ASSETS	30	ABATTOIRS	360
	30	ASPHALT PLANT	360
	30	CABLE STATIONS	360
	30	CARAVAN PARKS	360
	30	CINEMAS	360
	30	COMPACTING STATIONS	360
	30	HOSTELS - PUBLIC AND TOURIST	360
	30	HOSTELS WORKERS	360
	30	HOUSING SCHEMES	360
	30	KILNS	360
	30	LABORATORIES	360
	30	MARKETS	360
	30	NURSERIES	360
	30	OFFICE BUILDINGS	360
	30	OLD AGE HOMES	360
	30	QUARRIES	360
	30	TIP SITES	360
	30	TRAINING CENTRES	360

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
	30	TRANSPORT FACILITIES	360
	30	WORKSHOPS AND DEPOTS	360
	5	COMPUTER HARDWARE	60
	5	COMPUTER SOFTWARE	60
	5	FFICE MACHINES	60
	7	AIR CONDITIONERS	84
	10	CHAIRS	120
	10	TABLES AND DESKS	120
	10	CABINETS AND CUPBOARDS	120
	10	FURNITURE AND FITTINGS OTHER	120
	5	HOUSEHOLD REFUSE BINS	60
	10	BULK CONTAINERS	120
	15	FIRE EQUIPMENT	180
	10	AMBULANCE EQUIPMENT	120
	5	FIRE HOSES	60
	5	EMERGENCY LIGHTS	60
	20	FIRE ENGINES	240
	15	BUSES	180
	7	MOTOR VEHICLES	84
	3	MOTOR CYCLES	36
	7	LDV's	84
	15	AIRCRAFT	180
	15	WATERCRAFT	180
	15	GRADERS	180
	15	TRACTORS & SELF PROPELLED MOWERS	180

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
	15	MECHANICAL HORSES	180
	5	FARM EQUIPMENT	60
	2	LAWNMOWERS	24
	5	COMPRESSORS	60
	5	LABORATORY EQUIPMENT	60
	5	RADIO EQUIPMENT	60
	5	FIRE ARMS	60
	5	TELECOMMUNICATION EQUIPMENT	60
	5	PLANT AND EQUIPMENT GENERAL	60
	15	CABLE CARS	180
	15	IRRIGATION SYSTEMS	180
	15	CREMATORS	180
	15	LATHES	180
	15	MILLING EQUIPMENT	180
	15	CONVEYORS	180
	15	FEEDERS	180
	15	TRUCKS & TIPPERS	180
	15	PULVERISING MILLS	180

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
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INVESTMENTS	30	LAND MAIN INVESTMENT	360
	30	FARMS	360
	30	MINERAL RIGHTS	360
	30	OFFICE PARKS	360
	30	SHOPPING CENTERS	360
	30	HOUSING SCHEMES	360

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
HERITAGE ASSETS	0	MUSEUM EXHIBITS	0
	0	PUBLIC STATUES	0
	0	HISTORICAL BUILDINGS & STRUCTURES	0
	0	HISTORICAL SITES	0
	0	PAINTINGS	0
	0	SCULPTURES	0

1. FINAL ADOPTION

Council is the formulator of, and decision maker where, policies are concerned. The final approval of this policy rests with the Lukhanji Council on recommendation of the Executive Mayor.

2. IMPLEMENTATION AND REVIEW OF THIS POLICY

- a) This policy shall be implemented once approved by Council. All future budget preparation must be made in accordance with this policy.

- b) In terms of section 17 (1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

3. AUTHENTICATION

This policy has been considered and approved by the COUNCIL OF LUKHANJI LOCAL MUNICIPALITY as follows:

Resolution No:

Approval Date: 28 May 2015

N Makanda
Executive Mayor

S Nkonki
Acting Municipal Manager

LUKHANJI MUNICIPALITY BUDGET AND TREASURY DIRECTORATE



REVIEWED BUDGET POLICY

Prepared by Chief Financial Officer

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Adopted 28 May 2015

TABLE OF CONTENTS

<u>DEFINITIONS</u>	305
<u>1. INTRODUCTION</u>	310
<u>2. OBJECTIVE</u>	310
<u>3. BUDGET PRINCIPLES</u>	310
<u>4. BUDGET PREPARATION PROCESS</u>	311
<u>4.1 FORMULATION OF THE BUDGET</u>	311
<u>4.2 PUBLIC PARTICIPATION PROCESS</u>	312
<u>4.3 APPROVAL OF THE BUDGET</u>	312
<u>4.4 PUBLICATION OF THE BUDGET</u>	314
<u>5. CAPITAL BUDGET</u>	314
<u>REVENUE OR SURPLUS</u>	315
<u>EXTERNAL LOANS</u>	315
<u>GRANT FUNDING</u>	315
<u>6. OPERATING BUDGET</u>	316
<u>7. FUNDING OF OPERATING BUDGET</u>	317
<u>8. UNSPENT FUNDS / ROLL OVER OF BUDGET</u>	317
<u>9. DELEGATION OF BUDGET ADJUSTMENT POWERS AND DUTIES</u>	318
<u>10. SUB-DELEGATIONS</u>	318
<u>11. BUDGET ADJUSTMENT PROCESS</u>	319
<u>12. APPENDIX TO ADJUSTMENTS PROCESS</u>	319
<u>13. BUDGET IMPLEMENTATION</u>	324
<u>MONITORING</u>	324
<u>14. FINAL ADOPTION</u>	324
<u>15. IMPLEMENTATION AND REVIEW OF THIS POLICY</u>	324
<u>16. AUTHENTICATION</u>	325



DEFINITIONS

"Accounting Officer"-

- (a) means the Municipal Manager;

"Allocation", means-

- (a) a municipality's share of the local government's equitable share referred to in section 214(1)(a) of the Constitution
- (b) an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution
- (c) an allocation of money to a municipality in terms of a provincial budget; or
- (d) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

"Annual Division of Revenue Act" means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

"Approved budget, "means an annual budget-

- (a) approved by a municipal council, or
- (b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

"Basic Municipal Service" means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Budget-related Policy" means a policy of a municipality affecting or affected by the annual budget of the municipality, including-

- (a) the tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- (b) the rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or
- (c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

"Budget Transfer" means transfer of funding within a function / vote.

"Budget Year" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

"Chief Financial Officer" means a person designated in terms of section 80(2) (a) of the MFMA;

"Councillor" means a member of a municipal council;

"Creditor", means a person to whom money is owed by the municipality;

"Current year" means the financial year, which has already commenced, but not yet ended;

"Delegation", in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

"Financial recovery plan" means a plan prepared in terms of section 141 of the MFMA

"Financial statements", means statements consisting of at least-

- (a) a statement of financial position;
- (b) a statement of financial performance;
- (c) a cash-flow statement;
- (d) any other statements that may be prescribed; and
- (e) any notes to these statements;

"Financial year" means a twelve months period commencing on 1 July and ending on 30 June each year

"Financing agreement" includes any loan agreement, lease, and installment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

"Fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

"Irregular expenditure", means-

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in

accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorized expenditure";

"investment", in relation to funds of a municipality, means-

- (a) the placing on deposit of funds of a municipality with a financial institution; or
- (b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

"Lender", means a person who provides debt finance to a municipality;

"Local community" has the meaning assigned to it in section 1 of the Municipal Systems Act;

"Municipal Structures Act" means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

"Municipal Systems Act" means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

"Long-term debt" means debt repayable over a period exceeding one year;

"Mayor" means the councillor elected as the mayor of the municipality in terms of section 55 of the Municipal Structures Act;

"Municipal council" or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act;

"Municipal debt instrument" means any note, bond, debenture or other evidence of indebtedness issued by a municipality, including dematerialized or electronic evidence of indebtedness intended to be used in trade;

"Municipal entity" has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"Municipality"-

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

"Accounting Officer" means a person appointed in terms of section 82(1) (a) or (b) of the Municipal Structures Act;

"Municipal service" has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"Municipal tariff" means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

"Municipal tax" means property rates or other taxes, levies or duties that a municipality may impose;

"National Treasury" means the National Treasury established by section 5 of the Public Finance

Management Act;

"Official", means-

- (a) an employee of a municipality or municipal entity;
- (b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

"Overspending"-

- (a) means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;
- (b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
- (c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"Past financial year" means the financial year preceding the current year;

"Quarter" means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

"Service delivery and budget implementation plan" means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate-

- (a) projections for each month of-
 - (i) revenue to be collected, by source; and
 - (ii) operational and capital expenditure, by vote;
- (b) service delivery targets and performance indicators for each quarter; and
- (c) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(1) (c) of the MFMA;

"Short-term debt" means debt repayable over a period not exceeding one year;

"Standards of generally recognised accounting practice," means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board

"Virement" means transfer of funds between functions / votes

"Vote" means-

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- (b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

"Unauthorised expenditure", means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3) of the MFMA, and includes-

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with the MFMA;

"virement" means transfer of funds between functions/vote

"vote" means ;

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of funds for different departments or functional areas; and
- (b) which specifies the total amount that is appropriated for the purpose of the department or functional area concerned.

1. INTRODUCTION

The purpose of this policy is to ensure that policy is in line with the provisions of the Constitution S160(6) and the Municipal Systems Act S11(3)(h), a sound and sustainable management of the budget compilation and approval process.

The Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the executive mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

This policy must be read, analyzed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realize diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualization and the operationalization of the budget must be located within the national government's policy framework.

2. OBJECTIVE

The objective of the budget policy is to set out:

- a) The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,
- b) The responsibilities of the mayor, the accounting officer, the chief financial officer and other Directors in compiling the budget
- c) To establish and maintain procedures to ensure adherence to Lukhanji's IDP review and budget processes

3. BUDGET PRINCIPLES

- a) The budget will be funded from realistically anticipated revenues to be collected, cash backed accumulated funds not committed for other purposes and borrowed funds.

- b) Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.
- c) Incremental based budgeting shall be used, except in cases of new programmes where zero based budget shall apply .
- d) A three-year budget (medium term revenue and expenditure framework (MTREF)) shall be prepared, reviewed annually and approved by Council.
- e) The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.
- f) *The municipality shall not budget for a deficit.*
- g) *The maintenance budget shall be based on the submissions made by various departments but shall not be less than a particular proportion of the total value of property, plant and equipment, which shall be determined by Council from time to time.*
- h) *Tariff increases shall respond to DORA allocations and population growth in the Lukhanji area of jurisdiction.*

4. BUDGET PREPARATION PROCESS

4.1 Formulation of the budget

The Accounting Officer with the assistance of the Director responsible for IDP and Chief Financial Officer shall draft the IDP and Budget process plan timetable for the municipality for the ensuing financial year.

- (b) The executive mayor shall table the IDP and Budget process plan to Council by 31 August each year for approval (10 months before the start of the next budget year).
- (c) IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the medium term revenue and expenditure

framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act as well as the guidelines set by National Treasury.

- (d) The Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings, etc).
- (g) The Chief Financial Officer shall issue budget instructions in September to all Head of Departments based on the approved process plan.
- (h) The Chief Financial Officer and senior managers undertake the technical preparation of the budget. The budget must be in the prescribed format, and must be divided into capital and operating budget.
- (i) The budget must reflect the realistically expected revenues by major source for the budget year concerned
- (j) The expenses reflected in the budget must be divided into line items.
- (k) The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

4.2 Public participation process

Immediately after the draft annual budget has been tabled, the municipality must convene hearings on the draft budget in April and invite the public, stakeholder organizations, to make representation at the council hearings and to submit comments in response to the draft budget.

4.3 Approval of the budget

- (a) Council shall consider the next medium term expenditure framework budget for approval may

not later than 31 May (30 days before the start of the budget year).

- (b) The council resolution, must contain budget policies and performance measures be adopted.
- (c) The annual budget must be approved before the start of the budget year. Should the municipality fail to approve the budget before the start of the budget year, the executive mayor must inform the MEC for Finance in the Province that the budget has not been approved.
- (d) The budget tabled to Council for approval shall include the following supporting documents:
 - i. draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
 - ii. Draft resolutions;
 - iii. Measurable performance objectives for each budget vote, taking into account the municipality's IDP;
 - iv. The projected cash flows for the financial year by revenue sources and expenditure votes;
 - v. any proposed amendments to the IDP;
 - vi. Any proposed amendments to the budget-related policies;
 - vii. the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councilors, the accounting officer, the chief financial officer, and other senior managers;
 - viii. particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organizations such as Non-governmental Organizations, welfare institutions and so on;
 - ix. particulars of the municipality's investments; and
 - x. Resolutions be crafted in line with National Treasury Budget guidelines

4.4 Publication of the budget

- (a) Within time frames stipulated to circular 75 immediately after the draft annual budget has been tabled, the budget and other budget-related documentation must advertise for comments in a local newspaper, posted onto the municipal website so that it is accessible to the public as well as send hard copies to National and Provincial Treasury .
- (b) The Chief Financial Officer must within 10 days submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as advertise to local newspaper and post it on the municipal website.

5. CAPITAL BUDGET

- (a) *Expenditure shall be included in the capital budget if it meets the asset definition as defined in GRAP 17.* The threshold value will also be used to determine which items need to be capitalized and included in the fixed asset register. The threshold value will be reviewed on an annual basis.
- (b) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- (c) The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.

Before approving a capital project, the Council must consider:

- i. the projected cost of the project over all the ensuing financial years until the project becomes operational,
- ii. Future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).

- iii. the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans,
 - iv. depreciation of fixed assets,
 - v. maintenance of fixed assets, and
 - vi. any other ordinary operational expenses associated with any item on such capital budget.
- (f) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded.
- (g) The capital expenditure shall be funded from the following sources:

Revenue or Surplus

- (a) If any project is to be financed from revenue this financing must be included in the
- (b) Operation budget to raise sufficient cash for the expenditure.
- (c) If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project.

External loans

- (a) External loans can be raised only if it is linked to the financing of an asset;
- (b) A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured;
- (c) The loan redemption period should not exceed the estimated life expectancy of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure
- (d) Interest payable on external loans shall be included as a cost in the revenue budget;
- (e) Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

Grant Funding

- (a) Non capital expenditure funded from grants

- must be budgeted for as part of the revenue budget;
 - Expenditure must be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such.
-
- Capital expenditure must be budgeted for in the capital budget;
 - Interest earned on investments of Conditional Grant Funding shall be capitalized if the conditions state that interest should accumulate in the fund. If there is no condition stated the interest can then be allocated directly to the revenue accounts.
 - Grant funding does not need to be cash backed but cash should be secured before spending can take place.

6. OPERATING BUDGET

- (a) The municipality shall budget in each annual and adjustments budget for the contribution to:
 - i. provision for accrued leave entitlements equal to 100% of the accrued leave
 - ii. Provision for bad debts in accordance with its rates and tariffs policies
 - iii. Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.
 - vi. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for maintenance.
- (b) When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.
- (c) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.
- (d) The operating budget shall reflect the impact of the capital component on:

- depreciation charges
- repairs and maintenance expenses
- (c) interest payable on external borrowings
- (d) Other operating expenses.
- (e) The chief financial officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.

7. FUNDING OF OPERATING BUDGET

- (a) The budget may be financed only from:
 - i. realistically expected revenues, based on current and previous collection levels;
 - ii. cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
 - iii. *Allocations from other spheres of government.*

8. UNSPENT FUNDS / ROLL OVER OF BUDGET

- (a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure.
- (b) Only unspent grant (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year
- (c) Conditions of the grant fund shall be taken into account in applying for such roll over of funds in line with guidelines set in circular 74 and 75 of National Treasury
- (d) Adjustments to the rolled over budget shall be done during the 2nd budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial

year.

- (f) No funding for projects funded from the own funds shall be rolled over to the next budget year except in cases where a commitment has been made before the end of the financial year.

(g) No unspent operating budget shall be rolled over to the next budget year except for vacant funded position which shall remain in the personnel budget until the position is filled

9. DELEGATION OF BUDGET ADJUSTMENT POWERS AND DUTIES

The council hereby delegates such additional powers and duties to the *accounting officer* so as to enable the *accounting officer* –

- i. to discharge the financial management responsibilities conferred on him in terms of –
 - 1. chapter 8 of the *MFMA*; and
 - 2. ensuring an effective control system for this Budget Adjustment policy;
- ii. to maximise administrative and operational efficiency in the implementation of the Budget policy;
- iii. Sections 79 and 106 of the *MFMA* apply to the sub-delegation of powers and duties delegated to an *accounting officer* in terms of paragraph 3.1 of this policy.
- iv. There can be no budget adjustment between capital and operating budgets, at any level, unless approved in advance by the council.
- v. *Budget adjustments* from an employee budget (salary or benefit related) to a non-employee budget, and vice versa, is not permitted without the specific prior approval of the Accounting Officer.
- vi. The council or *accounting officer* may not delegate or sub-delegate any virement powers or duties to a person who is not an official of the municipality.

10. SUB-DELEGATIONS

10.1 The council hereby delegates authority to the *accounting officer* to approve budget adjustments within and between *sub-votes* up to a cumulative value for the financial year of R1 million or 25% of the total *sub-vote* (whichever is the lesser amount). Above this level requires council approval.

10.2 The *accounting officer* may in terms of section 79 or 106 of the MFMA sub-delegate any budget adjustment responsibilities, including those delegated to the *accounting officer* in terms of this policy, but any such sub-delegation must be consistent with other provisions within this policy.

10.3 The power to approve a budget adjustment –

- vii. between *votes* may not be sub-delegated except as outlined in paragraph 5.1;
- viii. between different departments or within the same department, and within the same vote, may be sub-delegated by the *accounting officer*, but only to the *CFO* and only in line with this policy.;

11. BUDGET ADJUSTMENT PROCESS

11.1 Budget adjustments between *votes* must be approved by the council in advance of their implementation, except in the case of an emergency as determined by the *accounting officer* including, but not limited to, –

- i. unforeseen and unavoidable expenditure for which no provision was made in the budget and in line with the adopted policy; and
- ii. Expenditure in relation to cases of emergency as described in the municipality's supply chain management policy; in which case the *accounting officer* must agree the budget adjustment with the mayor and report it to the next council meeting as per policy.

11.1 All budget adjustments must be reported to council as required in terms of sections 71 and 72 of the *MFMA* and, if required, as part of the adjustments budget in accordance with section 28 of the *MFMA*.

11.2 All budget adjustments must be reported to, and recorded by, the *CFO*. *Senior managers* must provide the *CFO* with relevant and timely information in accordance with the prescribed format as determined by the *CFO*.

12. APPENDIX TO ADJUSTMENTS PROCESS

Section

15 Appropriation of funds for expenditure

A municipality may, except where otherwise provided in this Act, incur expenditure only –

- a. In terms of the approved budget; and
- b. Within the limits of the amounts appropriated for the different votes in the approved budget.

28 Municipal adjustments budget

(1) A municipality may revise an approved annual budget through an adjustments budget.

(2) An adjustments budget -

- c. must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
- d. may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
- e. may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
- f. may authorise the utilisation of projected savings in one vote towards spending under another vote;
- g. may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
- h. may correct any errors in the annual budget; and
- i. may provide for any other expenditure within a prescribed framework.

(3) An adjustments budget must be in a prescribed form.

(4) Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of subsection (2) (b) to (g) may only be tabled within any prescribed limitations as to timing or frequency. adjustments budget must be in a prescribed form.

(5) When an adjustments budget is tabled, it must be accompanied by-

- a. an explanation how the adjustments budget affects the annual budget;

- b. a motivation of any material changes to the annual budget;
 - c. an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and
 - d. any other supporting documentation that may be prescribed.
- (6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.
- (7) Sections 22(b), 23(3) and 24(3) apply in respect of an adjustments budget, and in such application a reference in those sections to an annual budget must be read as a reference to an adjustments budget.

69 Budget implementation

- (1) The accounting officer of a municipality is responsible for implementing the municipality's approved budget, including taking all reasonable steps to ensure –
- a. that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget or in the service delivery and budget implementation plan; and
 - b. that revenue and expenditure are properly monitored.
- (2) When necessary, the accounting officer must prepare an adjustments budget and submit it to the mayor for consideration and tabling in the municipal council.
- (3) The accounting officer must no later than 14 days after the approval of an annual budget submit to the mayor-
- a. a draft service delivery and budget implementation plan for the budget year; and
 - b. drafts of the annual performance agreements as required in terms of section 57(1) (b) of the Municipal Systems Act for the municipal manager and all senior managers

71 Monthly budget statements

- (1) The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the

following particulars for that month and for the financial year up to the end of that month –

- a. actual revenue, per revenue source;
- b. actual borrowings;
- c. actual expenditure, per vote;
- d. actual capital expenditure, per vote;
- e. the amount of any allocations received;
- f. actual expenditure on those allocations, excluding expenditure on –
 - i. any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;
 - ii. any material variances from the service delivery and budget implementation plan; and
 - iii. any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.

(2) The statement must include-

- a. a projection of the relevant municipality's revenue and expenditure for the rest of the financial year, and any revisions from initial projections; and
- b. the prescribed information relating to the state of the budget of each municipal entity as provided to the municipality in terms of section 87(10).

(3) The amounts reflected in the statement must in each case be compared with the corresponding amounts budgeted for in the municipality's approved budget.

(4) The statement to the provincial treasury must be in the format of a signed document and in electronic format.

(5) The accounting officer of a municipality which has received an allocation referred to in subsection (1) (e) during any particular month must, by no later than 10 working days after the end of that month, submit that part of the statement reflecting the particulars referred to in subsection (1) (e) and (f) to the national or provincial organ of state or municipality which transferred the allocation.

(6) The provincial treasury must by no later than 22 working days after the end of each month submit to the National Treasury a consolidated statement in the prescribed format on the state

of the municipalities' budgets, per municipality and per municipal entity.

(7) The provincial treasury must, within 30 days after the end of each quarter, make public as may be prescribed, a consolidated statement in the prescribed format on the state of municipalities' budgets per municipality and per municipal entity. The MEC for finance must submit such consolidated statement to the provincial legislature no later than 45 days after the end of each quarter.

72 Mid-year budget and performance assessment

(1) The accounting officer of a municipality must by 25 January of each year–

- a. assess the performance of the municipality during the first half of the financial year, taking into account-
 - i. the monthly statements referred to in section 71 for the first half of the financial year;
 - ii. the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget implementation plan;
 - iii. the past year's annual report, and progress on resolving problems identified in the annual report; and
 - iv. the performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 from any such entities; and
- b. submit a report on such assessment to-
 - i. the mayor of the municipality;
 - ii. the National Treasury; and
 - iii. the relevant provincial treasury.

(3) The accounting officer must, as part of the review–

- a. make recommendations as to whether an adjustments budget is necessary; and
- b. recommend revised projections for revenue and expenditure to the extent that this may be necessary.

13. BUDGET IMPLEMENTATION

Monitoring

- (a) The Accounting Officer with the assistance of the Chief Financial officer and other senior managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
 - funds are spent in accordance with the budget;
 - expenses are reduced if expected revenues are less than projected; and
 - revenue and expenses are properly monitored.
- (b) The Accounting Officer with the assistance of the Chief Financial Officer must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling to Council.
- (d) The Accounting Officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

14. FINAL ADOPTION

Council is the formulator of, and decision maker where, policies are concerned. The final approval of this policy rests with the Lukhanji Council on recommendation of the Executive Mayor.

15. IMPLEMENTATION AND REVIEW OF THIS POLICY

- c) This policy shall be implemented once approved by Council. All future budget preparation must be made in accordance with this policy.
- d) In terms of section 17 (1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

16.AUTHENTICATION

This policy has been considered and approved by the COUNCIL OF LUKHANJI LOCAL MUNICIPALITY as follows:

Resolution No:

Approval Date:28 May 2015

N Makanda
Executive Mayor

S Nkonki
Acting Municipal Manager

LUKHANJI MUNICIPALITY

BUDGET AND TREASURY DIRECTORATE



CREDIT CONTROL AND DEBT MANAGEMENT POLICY

Reviewed Policy by Chief Financial Officer
045 807 2001/2

nntshanga@lukhanji.gov.za

Adopted 28 May 2015

Table of contents

<u>PREAMBLE</u>	328
<u>DEFINITIONS</u>	329
<u>1. PRINCIPLES</u>	334
<u>2. DUTIES AND FUNCTIONS</u>	335
<u>2.1. DUTIES AND FUNCTIONS OF COUNCIL</u>	335
<u>2.2 DUTIES AND FUNCTIONS OF EXECUTIVE MAYOR</u>	337
<u>2.3 DUTIES AND FUNCTIONS OF THE MUNICIPAL MANAGER</u>	338
<u>2.4 DUTIES AND FUNCTIONS OF COMMUNITIES, RATEPAYERS AND RESIDENTS</u>	338
<u>2.5 DUTIES AND FUNCTIONS OF WARD COUNCILLORS</u>	339
<u>3. AREA OF APPLICATION</u>	339
<u>4. APPLICATION FOR SERVICES</u>	339
<u>5. CUSTOMER SERVICE AGREEMENTS</u>	340
<u>6. DEPOSITS</u>	341
<u>7. ACCOUNTS, BILLING AND RESPONSIBILITY FOR PAYMENT</u>	342
<u>8. METERING OF CONSUMABLE(ELECTRICITY) SERVICES</u>	343
<u>9. SUNDRY DEBTOR ACCOUNTS</u>	344
<u>10. BACK CHARGES</u>	344
<u>11. PROPERTY RATES</u>	344
<u>12. BILLING OF GOVERNMENT FUNDED (RDP) HOUSES</u>	345
<u>13. RATES REBATE</u>	345
<u>14. ARRANGEMENTS FOR SETTLEMENT</u>	345
<u>15. PAYMENT OF RATES BY INSTALMENTS</u>	348
<u>16. GOVERNMENT DEPARTMENTS</u>	348
<u>17. RENTAL OF FACILITIES</u>	348
<u>18. COLLECTION PROCESS RENTAL OF FACILITIES</u>	349
<u>19. COMMUNICATION</u>	350
<u>20. PAYMENT FACILITIES AND METHODS</u>	350
<u>21. ENQUIRIES AND APPEALS</u>	351
<u>22. DEBT COLLECTION</u>	352
<u>23. BLOCK FROM THE PURCHASE OF ELECTRICITY:</u>	352
<u>24. SECTION 118 OF THE LOCAL GOVERNMENT MUNICIPAL SYSTEMS ACT NO 32 OF 2000</u>	353

<u>25. WITHHOLDING APPROVAL OF BUILDING PLANS</u>	354
<u>26. OTHER DEBT COLLECTION METHODS</u>	354
<u>27. DEBT COLLECTION COSTS</u>	354
<u>28. METER READINGS</u>	355
<u>29. THEFT AND FRAUD</u>	355
<u>30. IRRECOVERABLE DEBT</u>	355
<u>31. APPLICATION OF THE POLICY</u>	357
<u>32. EFFECTIVE DATE</u>	358
<u>33. POLICY ADOPTION</u>	358

PREAMBLE

WHEREAS section 152 (1) (b) of the Constitution of the Republic of South Africa Act 108 of 1996 (*the Constitution*) provides that one of the objects of local government is to ensure that the provision of services to communities occurs in a sustainable manner;

AND WHEREAS section 153 (a) of the Constitution provides that a municipality must structure its administration, budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community;

AND WHEREAS section 195 (1) of the Constitution provides that the public administration must be governed by the democratic values and principles enshrined in the Constitution, including-

- The promotion of the efficient, economic and effective use of resources;
- The provision of services impartially, fairly, equitably and without bias; and
- The fact that people's needs must be responded to.

AND WHEREAS section 4 (1) (c) of the Local Government: Municipal Systems Act 33 of 2000 (*the Systems Act*) provides that the Council of a municipality has the right to finance the affairs of the municipality by charging fees for services, imposing surcharges on fees, rates on property and, to the extent authorised by national legislation, other taxes, levies and duties;

AND WHEREAS section 5 (1) (g), read with subsection (2) (b), of the Systems Act provides that members of the local community have the right to have access to municipal services which the municipality provides provided that, where applicable and subject to the policy for indigent debtors, pay promptly for services fees, surcharges on fees, other taxes, levies and duties imposed by the municipality;

AND WHEREAS section 6 (2) (c), (e) and (f) of the Systems Act provides that the administration of a municipality must take measures to prevent corruption; give members of a local community full and accurate information about the level and standard of municipal services that they are entitled to receive; and inform the local community about how the municipality is managed, of the costs involved and the persons in charge;

AND WHEREAS Chapter 9, sections 95, 96, 97, 98, 99 and 100, of the Systems Act provides for Customer Care Management, Debt Collection responsibility of the Municipality, contents of the policy, by-laws that give effect to the policy, Supervisory authority and Implementing authority;

AND WHEREAS Chapter 8, section 64 of the Municipal Finance Management Act stipulates that an Accounting Officer of a municipality is responsible for effective revenue collection systems consistent with section 95 of the Municipal Systems Act and the municipality's credit control and debt collection policy.

IT IS HEREBY ADOPTED: a credit control and debt management policy of the Lukhanji Municipality.

DEFINITIONS

For the purpose of this policy, the wording or any expression has the same meaning as contained in the Act, except where clearly indicated otherwise and means the following:

“Act” The Local Government Acts: Systems Act, 2000 (Act No 32 of 2000), The Municipal Finance Management Act (MFMA) (Act No 56 of 2003), as amended from time to time;

“Arrangement” A written agreement entered into between the Council and the debtor where specific repayment parameters are agreed.

“Arrears” Means those rates and service charges that have not been paid by the due date and for which no arrangement has been made.

“Authorized Representative”

Person or instance legally appointed by the Council to act or to fulfil a duty on its behalf;

“billing”

Refers to the process of charging for services provided by issuing Accounts;

“CFO”

The person appointed as the Chief Financial Officer of the municipality in terms of the provisions contained in the MFMA, or—his or her nominee.

“Council”

The municipal council, as referred to in section 157 of the Constitution of the Republic of South Africa Act 108 of 1996, of the Lukhanji Municipality established by part 7 of provincial notice 80, dated 27 September 2000;

“Credit Control”

Credit control encompasses all the functions relating to the management of the contract with and collection of monies owed by customers of municipal services including but not restricted to:

- Signing of a valid service agreement, the payment of a service deposit and the verification of the customers creditworthiness.
- Accurate meter readings at fixed intervals
- Accurate and regular billing
- Regular communication to customers
- Provision of Indigent support
- Maintain efficient and affordable service levels and standards within Councils financial constraints and capacity
- Provide appropriate payment terms and options
- Provide an effective and efficient enquiry system
- Implement consistent credit control measures with the aim to enforce a culture of payment for services and a commitment to pay the current account and service any arrears monthly.
- Furnish monthly reports to Council on the performance of revenue collection.

<i>“customer”</i>	Any occupier of any premises to which Council has agreed to supply or is actually supplying services, or if there is no occupier, then the owner of the premises and includes any debtor of the municipality;
<i>“debt collection”</i>	Entails all actions to ensure the effective collection of all monies due to the municipality;
<i>“defaulter”</i>	Any Person who is owing the Council arrear monies in respect of rates and / or service charges;
<i>“effective disconnection”</i>	Includes, inter alia, the physical removal of connections and/or equipment as a consequence of unauthorised reconnection (tampering and/or by-passing) of the disconnected service
<i>“engineer”</i>	The Director : Technical Services and/or his delegated official of Council;
<i>“equipment”</i>	A building or other structure, pipe, pump, wire, cable, meter, engine or any accessories;
<i>“financial year”</i>	Means a year ending 30 June
<i>“gender”</i>	Any reference to the one gender shall include reference to the other
<i>“Implementing Authority”</i>	Means the Municipal Manager or his or her nominee, acting in terms of section 100 of the Systems Act.
<i>“interest”</i>	A charge levied with the same legal priority as service fees and calculated at a rate determined by council from time to time on all arrear monies;

“municipal account”

An account rendered specifying charges for services provided by the municipality, or any authorised and contracted service provider, and/or assessment rates levies;

“Municipality”

Means the Lukhanji Municipality.

“ Municipal Manager”

The person appointed as Municipal Manager in terms of section 82 of the Local Government: Structures Act, 1998, (Act 117 of 1998) and include any person acting in that position or to whom authority was delegated;

“municipal services”

Those services provided by the municipality, such as, inter alia the supply of water and electricity, refuse removal, sewerage treatment, sundries and any other services for which service charges are levied;

“occupier”

Any person who occupies any property or part thereof, without regard to the title under which he or she occupies the property,

“owner” –

- (a) The person in whom from time to time is vested the legal title to premises;
- (b) In a case where the person in whom the legal title is vested is insolvent or dead, or is under any form of legal disability whatsoever, the person in whom the administration of and control of such premises is vested as curator, trustee, executor, administrator, judicial manager, liquidator or other legal representative;
- (c) In a case where the Council is unable to determine the identity of such person, a person who is entitled to the benefit of such premises with a building thereon;
- (d) In the case of premises for which a lease of 30 years or more has been entered into, the lessee thereof;

(e) In relation to-

- i. A piece of land delineated on a sectional plan registered in terms of the Sectional Titles Act 1986, (Act 95 of 1986), and without restricting the above the developer or the body corporate in respect of the common property; or
- ii. A section as defined in such Act, the person in whose name such a section is registered under a sectional title deed and includes the lawfully appointed agent of such a person;

(f) Any legal person including but not limited to-

- i. A company registered in terms of the Companies Act, 1973 (Act 61 of 1973), a trust, a closed corporation registered in terms of the Closed Corporations Act, 1984 (Act 69 of 1984) and a voluntary association;
- ii. Any department of State;
- iii. Any Council of Board established in terms of any legislation applicable to the Republic of South Africa;
- iv. Any Embassy or other foreign entity;

“premises” Includes any piece of land, the external surface boundaries of which

Is delineated on-

- a) A general plan or diagram registered in terms of the Land Survey Act, 1927 (9 of 1927), or in terms of the Deed Registry Act, 1937 (47 of 1937); or
- b) A sectional plan registered in terms of the Sectional Titles Act, 1986 (95 of 1986), which is situated within the area of jurisdiction of the Council;

“rates” means a municipal rate on property envisaged in section 229(1)(a) of the constitution and the Property Rates Act (Act Number 6 of 2004).

“Ratable property”

means a property on which a municipality may in terms of section 2 levy a rate, excluding property fully excluded from the levying of rates in terms of section 17 of the Act

“service”

means a municipal service rendered by the municipality and includes the supply of electricity, water, sanitation and refuse removal

“Supervisory Authority”

Means the Executive Mayor of the Municipality or his or her nominee, acting in terms of Section 99 of the Systems Act

“tampering”

means the unauthorised reconnection of a supply that has been disconnected for non-payment, the interference with the supply mains or bypassing of the metering equipment to obtain an unmetered service

1. PRINCIPLES

- 1.1 The administrative integrity of the municipality must be maintained at all costs. The democratically elected councillors are responsible for policy-making, while it is the responsibility of the Municipal Manager to ensure the execution of these policies.
- 1.2 All customers must complete an official application form, formally requesting the municipality to connect them to service supply lines. Existing customers may be required to complete new application forms from time to time, as determined by the Municipal Manager.
- 1.3 A copy of the application form including conditions of services and a copy of the Lukhanji's Council credit control and debt collection policy must be handed to every new customer on date of application for services.
- 1.4 Billing is to be accurate, timeous and understandable.

- 1.5 The customer is entitled to reasonable access to pay points and to a variety of reliable payment methods.
- 1.6 The customer is entitled to an efficient, effective and reasonable response to appeals, and should suffer no disadvantage during the processing of a reasonable appeal.
- 1.7 Enforcement of payment must be prompt, consistent and effective.
- 1.8 Unauthorised consumption, connection and reconnection, the tampering with or theft of meters, service supply equipment and the reticulation network and any fraudulent activity in connection with the provision of municipal services will lead to disconnections, penalties, loss of rights and criminal prosecutions.
- 1.9 Incentives and disincentives may be used in collection procedures.
- 1.10 Results will be regularly and efficiently reported by the Municipal Manager and the Executive Mayor.
- 1.11 Application forms will be used to, inter alia, categorise customers according to credit risk and to determine relevant levels of services and deposits required.
- 1.12 Targets for performance in both customer service and debt collection will be set and pursued and remedies implemented for non-performance.

2. DUTIES AND FUNCTIONS

2.1. Duties and Functions of Council

- 2.1.1. To approve a budget consistent with the needs of communities and ratepayers in line with financial capability of council.
- 2.1.2. To impose rates and taxes and to determine service charges, fees and penalties to finance the budget.

- 2.1.3. To facilitate sufficient funds to give access to basic services for the poor.
- 2.1.4. To provide for a bad debt provision, in line with the payment record of the community, ratepayers and residents, as reflected in the financial statements of the municipality.²
- 2.1.5. To set an improvement target for debt collection, in line with acceptable accounting ratios and the ability of the Implementing Authority.³ (Debt collection target to be determined by Council annually.)
- 2.1.6. To approve a reporting framework for credit control and debt collection.
- 2.1.7. To consider and approve by-laws to give effect to the Council's policy.
- 2.1.8 To monitor the performance of the Executive Mayor (Supervising Authority) regarding credit control and debt collection.
- 2.1.8. To revise the budget should Council's targets for credit control and debt collection not be met;
- 2.1.9. To take disciplinary and/or legal action against councillors, officials and agents who do not execute council policies and by-laws, or act improperly in terms of such policies.
- 2.1.11. To establish a Municipal Internal Legal Debt Collection Unit to attend to the Legal Process of Collection up to the hand over of debtors for the implementation of the Execution process. The utilisation of external role players to achieve this goal in the interim.
- 2.1.12. To ensure that a list of attorneys is compiled in terms of Council's

³ A realistic target would be to improve on the previous year's result by 5% - 10%. The target should be reviewed every year until the turnover rate of debtors is between 45-56 days.

Procurement Policy, who will be utilised as part of the Legal process of Council in legal action instituted in terms of Council's Policy for matters relating to debt collection.

- 2.1.13. To delegate the required authorities to monitor and execute the credit control and debt collection policy to the Executive Mayor and Municipal Manager and Service Provider respectively in compliance with the relevant Acts.
- 2.1.14. To provide sufficient capacity in the Municipality's Financial Department for credit control and debt collection.
Alternatively to appoint a Service Provider as debt collection agent (such service provider must be a registered debt collection agent in terms of legislation).
- 2.1.15. To assist the Municipal Manager in the execution of his duties, if and when required.
- 2.1.16. To provide funds for the training of staff.

2.2 DUTIES AND FUNCTIONS OF EXECUTIVE MAYOR

- 2.2.1 To ensure that Council's budget, cash flow and targets for debt collection are met and executed in terms of the policy and relevant by-laws¹.
- 2.2.2 To monitor the performance of the Municipal Manager in implementing the policy and by-laws².
- 2.2.3 To review and evaluate the policy and by-laws in order to improve the efficiency of Council's credit control and debt collection procedures, mechanisms and processes³.
- 2.2.4 To report to Council.

Section 99 of the Local Government: Municipal Systems Act, 2000 provides that the executive Mayor must –a) Oversee and monitor –

¹ (i) The implementation and enforcement of the municipality's customer care, credit control and debt collection policy and any by-laws enacted in terms of section 98; and

² (ii) The performance of the municipal manager in implementing the policy and any by-laws.

³ (b) When necessary, evaluate or review the policy and any by-law, or the implementation of the policy or such by-laws, in order to improve efficiency of its credit control and debt collection mechanisms, processes and procedures; and

2.3 DUTIES AND FUNCTIONS OF THE MUNICIPAL MANAGER

- 2.3.1 To implement good customer care management systems.
- 2.3.2 To implement council's credit control and debt collection policy.
- 2.3.3 To install and maintain an appropriate accounting system as required by the MFMA and appropriate regulations.
- 2.3.4 To bill customers.
- 2.3.5 To demand payment on due dates.
- 2.3.6 To raise penalties for defaults.
- 2.3.7 To appropriate payments received.
- 2.3.8 To collect outstanding debt.
- 2.3.9 To provide different payment methods.
- 2.3.10 To determine credit control and debt collection measures.
- 2.3.11 To determine all relevant work procedures for, inter alia, public relations, arrangements, disconnections of services, summonses, attachments of assets, sales in execution, write-off of debts, sundry debtors and legal processes.
- 2.3.12 To instruct attorneys to proceed with the legal process (i.e. attachment and sale in execution of assets, emolument attachment orders etc.).
- 2.3.13 To set performance targets for staff.
- 2.3.14 To submit the appointment of staff to Council to execute council's policy and by-laws in accordance with council's staff policy.
- 2.3.15 To delegate certain functions to the Directors of departments.
- 2.3.16 To determine control procedures.
- 2.3.17 To monitor contracts with service providers in connection with credit control and debt collection
- 2.3.18 To report to the Executive Mayor.

2.4 DUTIES AND FUNCTIONS OF COMMUNITIES, RATEPAYERS AND RESIDENTS

- 2.4.1 to fulfil certain responsibilities, as brought about by the privilege and or right to use and enjoy public facilities and municipal services.
- 2.4.2 to pay service fees, rates on property and other taxes, levies and duties imposed by the municipality.
- 2.4.3 to observe the mechanisms and processes of the municipality in exercising their rights.
- 2.4.4 To allow municipal officials access to their property to execute municipal functions
- 2.4.5 To comply with the by-laws and other legislation of the municipality.
- 2.4.6 to refrain from tampering with municipal services and property.

2.5 DUTIES AND FUNCTIONS OF WARD COUNCILLORS

- 2.5.1 to hold regular ward meetings wherein the credit control and debt collection policy and procedures of Council are addressed.
- 2.5.2 to adhere to and convey council policies to residents and ratepayers and in particular the credit control and debt collection policy and procedure.
- 2.5.3 To adhere to the Code of Conduct for Councillors.
- 2.5.4 Ward Committees will act in terms of roles and functions as approved by Council and assist in the dissemination and distribution of information relating to the cc and dc proc of Council.

3. AREA OF APPLICATION

This policy applies throughout the area of the Municipality of Lukhanji.

4. APPLICATION FOR SERVICES

- 4.1 Customers who require a service must enter into a written service agreement with the Municipality which service agreement shall incorporate documentary annexures as determined and required by the municipality.

4.2 The process must occur at least five days prior to taking occupation of the premises, so that the Municipality can ensure that a meter reading is taken on the appropriate day and that the services are available when occupation is taken. Failure to adhere to the timeframe may result in customers not having the services available when occupation is taken.

4.3 The Municipality will render the first account after the first meter reading cycle to be billed following the date of signing the service agreement.

Customers who illegally consume services without this agreement will be subject to punitive action.

No tenant accounts are allowed.

4.4 If an existing tenant vacates the property where services are being provided without written notice to the Municipality then the owner of said property will be liable for any outstanding balance.

5. CUSTOMER SERVICE AGREEMENTS

5.1 Customer service agreements are those agreements that are entered into between the client and the Municipality for the supply of municipal services and shall include the documentary annexures as required.

5.2 The contents of the agreement includes this policy as well as:

An undertaking by clients:

- That they are liable for the costs of collection, including any administration fees, penalties for late payment, legal costs on an attorney client basis, interest, any administrative levy relating to disconnection and/or reconnection of services and personally liable as surety for legal entities;
- That any alleged non-receipt of an account does not stop the collection process;
- To agree that Council may conduct an ITC credit verification of his credit affairs.
- An additional/higher deposit may be required to be paid depending on the associated risk as determined by Council from time to time.

- That they will provide Council with all information and documentation required to assess credit worthiness of the customer.
- To furnish Council on application with all information relating to insolvency, sequestration, administration and or any other legal impediment relating to his status

6. **DEPOSITS**

6.1 The deposits are payable when new customers sign on and when existing customers move to a new supply address. Customers must pay a deposit equal to one month's total average bill. The municipality may increase or decrease deposits to suit the particular circumstances.

6.2 Before services can be provided, a service deposit is required to be paid by the customer to the Municipality.

Residential properties:

- (i) The deposit is payable in cash or direct bank deposit for all clients.
- (ii) Only destitute indigents are exempted from paying the deposit.
- (iii) Indigent clients: R150.00
- (iv) Prepaid meter Domestic: R350.00
- (v) Conventional electricity meter: R450.00
- (vi) Non-Profit Organisation: R500.00
- (vii) Businesses: from R2500.00 to a maximum of R100 000.00
- (viii) Name change are done in Whitelea, Ezibeleni and Mlungisi
- (ix) Deceased Owners name change will be done with only a letter of authority and memo from Human Settlement Directorate. No deposit required if there is already a sufficient deposit hold by the Municipality.
- (x) Deposit that are paid will only be refunded at the closure of the account after settlement of all levies, service charges, sundry charges, rates & taxes due to the Municipality.
- (xi) Cash deposits retained on behalf of customers shall not earn interest.
- (xii) Any deposit held by or on behalf of a customer shall, on being claimed, be refunded within 60 days after the termination of the clients agreement after deducting any amount due by the client to the Municipality.
- (xiii) Unclaimed deposits will be forfeited, after allocation to any arrears /refund to consumer the final account has been processed.

(xiv) The Municipality may at any time when the deposit is found to be inadequate require a customer to increase the deposit, in which event the customer shall, within 30 days after being so required, deposit with the Municipality such additional sum.

(xv) Deposits of new Business and Industrial clients will be determined based on the type of business being established and will be determined by the Revenue Manager or his/her delegate.

6.3 Customers must pay a deposit.

(i) Residential properties as determined by Council's Tariff Policy annually.

(ii) Non-SA Citizens -

All persons who are not SA Citizens and do not hold fixed property shall be required to pay triple the deposit as determined for residential properties.

(iii) Non-Domestic -

As determined by Council's Tariff Policy annually.

6.4 The Municipality shall increase the required deposit of defaulting customers who are disconnected or should be disconnected in accordance with this policy, to a figure as determined by the Council's Tariff Policy.

6.5 The Municipality may apply the deposit towards any and all arrears arising on a service account and thereafter shall apply (6.4) here of.

7. ACCOUNTS, BILLING AND RESPONSIBILITY FOR PAYMENT

7.1 Customers will receive one consolidated bill for all Lukhanji municipal services to a property, which is situated within the boundaries of the municipality.

7.2 Accounts are produced in accordance with the meter reading cycles.

7.3 An account will be rendered each month in cycles of approximately 30 days.

7.4 The consolidated account can include property rates charges

7.5 The Municipality will undertake reasonable steps to have the accounts delivered to all customers. However non-receipt of an account does not prevent interest charges and debt collection procedures. In the event of non-receipt of an account, the onus rests on the account holder to obtain a copy of the account, before the due date.

7.6 Accounts must be paid on the due date as indicated on the account.

- Interest on arrears will accrue after due date if the account remains unpaid as at due date, irrespective of the reason for non-payment.
- Indigents and destitute indigents are exempted from all interest charges
- A levy on late payments as determined by Council's Tariff Policy will be raised if the account remains unpaid as at due date irrespective of the reason for non-payment.

7.7 Payments for accounts must be received by

- close of business on or before the due date at a Municipal pay-point.
- In the case of any electronic payments or payments via agents, the money must be received in the municipal bank account by close of business on or before the due date and/or Council notified accordingly.

7.8 Inter-Governmental Transfers

- The Accounting Officer must immediately inform the National Treasury of payments due by an organ of state to the municipality in respect of municipal tax or for municipal services, if such payments are regularly in arrears for periods of more than 30 days (Section 64.3 of the MFMA)

7.9 Customers who have failed

- To pay the service charges levied by due date,
- or to comply with the conditions of supply of services

shall receive no further notification of Councils intention to disconnect services as such notification is supplied on the services account the debt collection process will be implemented.

8. **METERING OF CONSUMABLE(ELECTRICITY) SERVICES**

- 8.1 The municipality may introduce various metering equipment and customers may be required to convert to a system preferred by the municipality.
- 8.2 Customers who default (fail to pay by a due date) will be required by the

municipality to convert to a prepaid metering system.

- 8.3 Prepayment metering will be installed for all new domestic if there is a problem. We should consider giving notice on the bill that cutoffs will take place in 14 days. Make the bills due and payable on receipt. Perhaps discuss the option of a door hanger a couple of days before cut off is done. Electrical ,where applicable, non-domestic electrical accounts.
- 8.4 Meters (credit) will generally be read monthly. Should circumstances prevent reading, the municipality is entitled to estimate a reading that is within reason comparable.
- 8.5 A customer is responsible to allow municipal officials access to their property to execute municipal functions and will accept any cost to ensure access (such as relocating the meter) if satisfactory access is not possible.
- 8.6 Routine or special maintenance of metering equipment will be communicated to the customer. The meter replacement advice will indicate the removal reading.
- 8.7 the tariffs to calculate the electricity are determined annually and approved by Council and are contained in the tariff book produced by Council

9. SUNDRY DEBTOR ACCOUNTS

Sundry debtor accounts are raised for miscellaneous charges for services provided by Council or charges that rose against the debtor as a result of an action by a debtor or person which necessitates a charge to be raised by council against the debtor or person in terms of Council policies, bylaws and decisions.

The sundry debtor account is included in the Monthly consolidated account produced by Council.

10. BACK CHARGES

Council may, if it is found that the relevant Customer of Services has been undercharged for a period of time irrespective of the reason, charge the customer for the period as determined but not exceeding the current financial year from the date

11. PROPERTY RATES

- 11.1 Property rates and refuse charges are billed annually or monthly as preferred y customer
- 11.2 Property rates and refuse charged annually are billed in July account of each year and due date for the payment of these charges is 30 September of each year
- 11.3 Property rates and refuse charges charged monthly are billed on monthly accounts and the due date for the payment of charges will be indicated on the accounts

- 11.4 Tariffs are determined annually and approved by council in the tariffs register produced by Council
- 11.5 All properties within the boundaries of the Lukhanji Municipality are to be valued in terms of the legislation, applicable to the valuation of properties for the purpose of levying property rates.

12. BILLING OF GOVERNMENT FUNDED (RDP) HOUSES

The Municipality will only commence to raise charges in respect of rates and services once the property has been officially handed over to the beneficiary (i.e the keys to the house) by Human Settlement and the applicable service agreement must have been entered into.

13. RATES REBATE

Council may grant rebates on rates in terms of Council's rates policy.

14. ARRANGEMENTS FOR SETTLEMENT

Arrangements are permissible for debtors who experience difficulties in paying their accounts in accordance with council policy.

14.1 Principles for Residential Debtors

1. Current charges will be paid in full
2. The debtor may be required to prove the levels of income and must agree to monthly payment towards arrears based on such debtors ability to pay or based on such debtors liquidity if the Municipality so requires.
3. All negotiations with the debtor should strive to result in an arrangement that is in the interests of both parties and is sustainable
4. Interest will be charged on arrears
5. Interest on:
Arrears in respect of all services may be suspended and
Rates may be calculated at 0%
6. Debtors who default on three occasions in respect of arrangements will be denied the privilege of making further arrangements and the full amount becomes payable. Interest will be calculated from the original due date of the debt, taking any payments into consideration.
7. All arrangements may be subject to periodic review
8. Electricity may be disconnected and legal action may be taken against debtors referred above and such debtors may be referred to third party debt collectors for recovery

14.2 Arrangements Criteria for Residential Debtors

In case where residential debtors wish to make arrangements to liquidate their arrears, the following payment criteria, inter alia will apply:

1. current account and
2. an agreed payment towards arrears based on principles contained in this policy and minimum payment adjusted by the Municipality from time to time
3. each debtor will be required to pay instalment as determined in (1) above
4. should the debtor default, payment will be as follows:
 - (a) the first default :current account and monthly payment as determined increased by 50% of that payments(meaning the arranged instalment)
 - (b) Second Default: current account and double monthly payment as determined above
 - (c) Final default :current account and full arrears
5. In all cases failure to respond to notices will result in normal credit control procedures and all debt collection processes as provide for in this Policy may be taken

14.3 Principles of Non –Residential (Businesses) Debtors

- 1) In cases where non-residential debtors wish to make arrangements to liquidate their arrears, the following criteria, inter alia will apply:
- 2) Debtors may be required to furnish the Municipality with their latest audited annual financial statements and other supporting documentation relevant to their financial position in order to negotiate a settlement arrangement acceptable to the Municipality
- 3) All negotiations with debtors should strive to result in an agreement that is in the Municipalities best interests and sustainable
- 4) Interest will be charged on arrears at an interest rate that shall be determined by council from time to time
- 5) Interest on:

5.1 Arrears in respect of all services may be suspended ad

5.2 Rates may be calculated at 0% whilst the debtor adheres to the conditions of the arrangements

6) All arrangements may be subject to periodic review

7) The final decision to make these arrangements will rest with the Chief Financial Officer

14.4 Arrangement Criteria for Non –Residential (Businesses) Debtors

- 1) If the non-residential debtor wishes to make arrangements, interest may be charged or suspended on any outstanding amount and such arrangement will be subject to approval of the official as delegated
- 2) Should the debtor default on any arrangements electricity may be disconnected or terminated and legal action may be taken and such debt may be referred to a third party for recovery. Interest will be calculated from the original due date of debt taking any payments into consideration.

14.5 Special Condition for Regarding Arrangements

- 1) Where any residential or non –residential debtor has entered into an arrangement in respect of arrears on a property, the prescribed certificate as referred to Section 118 of the systems act will not be issued until such time as the full outstanding amount is paid
- 2) The conditions contained in the municipality arrangement document as amended from time to time will be deemed to form part of arrangement criteria in this policy.
- 3) Should the current account be higher than normal due to, but not limited to under estimation and faulty meters, previous accounts will be taken into consideration when determining an amount to pay in order to enter into an arrangement.
- 4) Notwithstanding when the debt is irrecoverable the Municipal Manager may determine that interest ,disconnection and reconnection charges be excluded from the first upfront amount to be paid when entering into an arrangements
- 5) All debtors entered into an arrangements shall provide their banking details and those who have the facility to sign a debit order with their financial instructions shall do so.
- 6) The Municipal Manager would normally only enter into arrangement with the property owners and account holders and may on receipt of an affidavit by the occupier or a tenant of a residential property which certifies that the owner of the property which such tenant or occupier so resides in, is untraceable or not contactable or such owners whereabouts are unknown.
- 7) That they have a right to occupy such property and stating the time period that they have occupied the property
- 8) The last known address of the owner
- 9) The rental due for such right to occupy
- 10) That such occupier or tenant undertakes to advise the owner at the first reasonable opportunity of the current situation and that the tenant or occupier further agrees to obtain the consent of the owner to condone the process as set out in this sub item:
- 11) Enter into an agreement with such a tenant or occupier in terms of this policy to pay off arrears on an account which is a charge against the property

14.6 Municipal Staff and Councillors Payments

Section 10 of schedule 2 of the Municipal systems act no 32 of 2000 provides the following:

- (i) “ A staff member of a Municipality may not be in arrears to the municipality for rates and service charges for a period longer than three months and a municipality may deduct any outstanding amounts from a staff member’s salary after this period”
- (ii) Arrear debt relating to rates and services charges will be collected from staff and councillors in terms of collection arrangements approved by Municipal Manager from time to time
- (iii) Financial situation of each applicant will be assessed
- (iv) If the staff member or Councillor cannot afford to repay the debt over six months the debt be spread over twelve months or repayment will not be more than 50% of the net salary. In case the size of the debt and net salary will be considered

- (v) Municipal staff and Councillors are not entitled to benefit from the Indigent support subsidy and write off policy whilst employed and if it discovered that a staff member or a councillor has benefitted from indigent support and write off policy after the date of their employment with the Municipality this will result in disciplinary action being taken against the relevant staff member or Councillor
- (vi) No owner or tenant of a property may benefit from the indigent subsidy or write off policy whilst a staff member or Councillor is residing in the same property.

15. PAYMENT OF RATES BY INSTALMENTS

- (i) may pay the property rates:
- (ii) Annually in advance or
- (iii) By application in writing on the prescribed form, to pay in equal monthly instalments over a period of 12 months.
- (iv) A service charge will be levied for customers who elect for monthly instalments (or discount for annual payments) to cover the administrative costs associated with this activity as laid out in the tariff policy.
- (v) Interest shall accrue on all rates accounts if they are not paid by the due date as indicated on the account (except as specifically exempted by council policy).
- (vi) Regular monthly instalment payments must be maintained. Failure to maintain monthly instalment payment for three (3) consecutive months shall result in the cancellation of the facility and all future instalments become payable.

16. GOVERNMENT DEPARTMENTS.

All governments departments are required to pay their accounts balances in full. Governments departments owing municipality over 60 day in arrears, services will be disconnected without any further notice. Furthermore, in terms of Section 64(3) of the Municipal Finance Management Act (Act.no56 of 2003) the amount to which the department is in arrears will be reported to both National Treasury and Provincial Treasury.

17. RENTAL OF FACILITIES

General Principles

- 1) Interest may be charged on all overdue accounts at an interest rate that shall be determined by council from time to time
- 2) Interest charges on arrears will be frozen subject to the rescheduled debt arrangements being honoured
- 3) A debt rescheduling arrangement requires the payment of the current monthly charges plus a mutually agreed amount towards the arrears each month

- 4) If a debt arrangement is not honoured, the debt collection process or legal action will resume from where it was suspended and not restart at the beginning of the debt management process
- 5) The municipality will be reasonably sent the notification of defaulting debtors following the issuing of the letter of demand and when judgement is granted against occupant
- 6) Home visits may be undertaken by officials or representatives on behalf of the Municipality following the issuing of the letter of demand to the debtor. Where the tenant and spouse are not home at the time of the visit, a letter for the tenant to call debt collection division of the municipality will be left at the dwelling (After one recorded unsuccessful attempt by the Municipal officials or representatives, house visits will be deemed to have been completed). The visiting official or representatives will make every effort to encourage the defaulting debtor to pay their current account and enter into an arrangement for arrears.
- 7) The Municipal Manager may recover from the debtor the following costs in instances where such costs are incurred by or on behalf of the Municipality:
 - i. Cost and administration fees where payments, made to the Municipality by negotiable instruments are dishonoured by the banks when presented for payment
 - ii. Legal and administrative costs, including attorney and client costs and tracing fees incurred in the recovery of debts
 - iii. Any collection commission
- 8) The following minimum payment equal to monthly rental charge will be added to legal costs are required from the debtor prior stopping the legal processs
 - i. Following the service of summons1 x total monthly
 - ii. Where judgement has been granted.....2 x total monthly
 - iii. On day of eviction.....3 x total monthly
- 9) The Municipality may use discretion where tenant is found to be indigent
- 10) If the debtor defaults on arrangement which was made on the day of eviction or re-issued warrant of eviction will be obtained and the subsequent eviction process can be stopped if 12 x total monthly rental charge plus legal costs are paid.
- 11) Should the debtor default on this second arrangement, no further arrangements will be entered into and the eviction will be enforced unless the debtor pays amount owing in full.
- 12) There will no restatement after eviction

18. COLLECTION PROCESS RENTAL OF FACILITIES

- I. Rental payable in advance by due date
- II. If payment is not received, a first contact letter /sms/email requesting payment and offering the debtor an opportunity to make arrangements within 30 days from the date of the communication mentioned above

- III. If the debtor fails to respond to this letter of demand within 30 days ,the debtor may within the next 30 days receive a house visit
- IV. Failure to respond after house visit, will result in legal proceedings
- V. The legal collection process will start with a letter demanding payment within a stipulated period
- VI. If the debtor fails to respond within the allowed time summons will be issued
- VII. No response to the summons will result in default judgement and ultimate sanction of eviction

19. COMMUNICATION

- (i) The municipality will where reasonably possible at its own cost make the Credit Control and Debt Collection policy brochure available to the community. Any amendments may be communicated in a newsletter or website.
- (ii) Councillors must on a regular basis, address ward committees and their wards on the contents of the policy and any amendments thereto.

20. PAYMENT FACILITIES AND METHODS

- (i) Municipal payment and enquiry facilities will be maintained subject to acceptable levels of activity when compared to the operational costs. The Municipal Manager or his designate has the discretion to open and close offices as required.
- (ii) The customer acknowledges that any agent used for transmitting payments to the Municipality is at the risk and cost of the customer. In addition the customer must take into account the transfer time of the particular agent.
- (iii) A range of payment methods is available and may be extended as required subject to financial implications. The Municipality shall actively monitor the effectiveness of pay facilities, methods and convenience for customers.
- (iv) The Chief Financial Officer shall allocate payments according to pre-determined priorities.
- (v) The customer is not allowed to selectively nominate any monies paid for specific services .The allocation of payments are automatically done according to priorities as determined by the CFO in line with Councils direction.
- (vi) No allegation for the non-receipt of an account will be exempted from the responsibility to pay on or before the due date.

- (vii) Officials and Councillors service accounts are to be deducted on a monthly basis from their salary remuneration.
- (viii) The Municipality may enter into agreement with businesses and their employees for the business to deduct from and pay over to the Municipality the Municipal service account due and owing by the employee.

21. ENQUIRIES AND APPEALS

- (i) Any customer who has a query/dispute concerning his service account or on the application of the credit control and debt collection policy and procedure to himself must address a letter to the Chief Financial Officer or visit any Customer Care Office provided by the municipality to lodge the query/dispute.
- (ii) A customer who has lodged a query/dispute is not relieved of the responsibility to maintain regular payment of the account. An interim payment similar to the average account must be paid by the due date pending finalisation of the enquiry. Failure to make a payment will result in debt collection action been instituted against the customer.
- (iii) The customer will receive a written response to a submitted written query within 10 working days of the query being lodged.
- (iv) If a customer is not satisfied with the response received from the Customer Care Office or the CFO he may make a written submission, to the Municipal manager, setting out the reasons for his dissatisfaction. The Municipal manager shall investigate the written submission and forward his findings to the client within 21 working days of receipt thereof. The Municipal Managers decision shall be final.
- (v) The testing of electricity meter may be done on request of the customer upon payment of the prescribed fee, which will be published in Council's annual tariff schedule.
- (vi) The fee will be refundable to the customer on the following conditions:
- (vii) If it is alleged in an appeal that a measuring device is inaccurate, the device must be subjected to a standard industry test to establish its accuracy, the customer must be informed of the possible cost implications including the estimated amount of such test, as set out in this section of the policy, prior to such test being undertaken.
- (viii) If the outcome of any test shows that a measuring device is

Within a prescribed range of accuracy, the customer will be liable for the costs of such test and any other amounts outstanding and the paid fee will be forfeited by the customer.

Outside a prescribed range of accuracy, the Council will be liable for the costs of such test and the customer must be informed of the amount of any credit to which he, or it is entitled.

22. DEBT COLLECTION

- (i) The Chief Financial Officer is authorised to institute these mechanisms without exception and with the intention of proceeding until the debt is collected.
- (ii) The following mechanisms are to be used to collect:
 - (iii) Disconnection / restriction of metered services for all overdue rates and service accounts.
 - (iv) Barring from buying prepayment services by debtors who are in arrears with all overdue rates and service accounts.
 - (v) Allocating a portion of any payment for prepayment services to arrear debt.
 - (vi) Insisting that a prepayment meter be installed.
 - (vii) Withholding of rates clearance certificates under certain conditions. (Refer to section 118 of the Systems Act of 2000.)
 - (viii) Legal process, including proceeding(s)/arrangements) in terms of section 57 of the Magistrates court act, an emoluments attachment order on the debtors salary, summons, the attachment and sale of moveable or immovable property, section 65 proceedings.
 - (ix) Withholding payments of grants-in-aid.
 - (x) Any other method authorised by Council.

23. BLOCK FROM THE PURCHASE OF ELECTRICITY:

- (i) Council will block a customer from the purchase of electricity on the prepayment electricity system if the account rendered by council is not paid by the due date as indicated on the account
- (ii) The block from the purchase of electricity will be for the total amount outstanding on the account, including unpaid amounts handed over for collection to the debt collection and not just for

the electricity portion of the account

- (iii) The blocked from purchase of electricity for the non-payment of an account will be during the 30 day period following due date
- (iv) Non indigent customers with arrears will be blocked on a block type that will require the customer to pay the amount due to council before the prepayment electricity can be purchased.
- (v) Low income non-indigent customers with arrears living in a property with certain municipal value at discretion of the Chief Financial Officer upon providing proof of income will be blocked on a block type that will require the customer to pay the current monthly account due before prepayment electricity can be purchased and with the purchase of electricity 40% of the amount rendered to purchase electricity will be held back and be allocated to arrear debt.
- (vi) Indigent customers with arrears will be blocked on a block type on the prepayment system that will require the Customer to pay the current monthly account due before prepayment electricity can be purchased and with the purchase of electricity 40% of the amount tendered to purchase electricity will be held back and be allocated to arrear debt. **The amount of the current monthly account due is the amount after the indigent subsidy has been deducted.**
- (vii) Customer will be placed on a total block from the purchase of electricity for the following reasons and will not be permitted to purchase electricity after a visit to Council Offices by the Customer to attend to the reason for blocking:
 - (a) When customer moved into a property and failed to apply for services from Council and failed to pay the required Customer deposits

24. SECTION 118 OF THE LOCAL GOVERNMENT MUNICIPAL SYSTEMS ACT NO 32 OF 2000

- (i) Council will issue a certificate required for the transfer of immovable property in terms of section 118 of the above mentioned act which is lodged with Council in the prescribed manner, only when all amounts that became due in connection with the property for Municipal service fees, surcharges on fees, property rates and other services, levies and duties during the two years preceding the date of application for the certificate have been fully paid. The Municipality will not accept letters of undertaking and will only release the clearance once the charges contemplated

above have been fully paid ,whether in cash or irrecoverable bank guaranteed cheque or an Attorneys Trust account Cheque.

- (ii) Debt older than two years on property irrespective of whether the owner of the property had accumulated the debt will also have to be paid before the transfer of the property by the owner.
- (iii) **If the owner refuses to pay the debt which is older than two years, then council will apply to a competent court for an order in the following manner:**
 - (a) In the case where there is already a judgement for the payment of the amount ,an order that the judgement debt be paid out of the proceeds of the sale before the mortgage debt is settled
 - (b) In the case where there is no judgement debt for an order staying transfer of the property pending finalization of a civil action to be instituted against the person who is in law liable for the payment of outstanding debt
 - (c) The above action must be taken before the property is transferred as the statutory lien created by section 118 (3) of the act only endures until property has been transferred and in terms of section 118(5) of the act can the new owner of the property not being held liable for the debt that became due before a transfer of a residential property took place.

25. WITHHOLDING APPROVAL OF BUILDING PLANS

Institutions or individual persons, who apply to Council for the approval of a building plan and who are in arrears with their services account, will have approval of the building plan withheld by council until the arrear debt with council is settled.

26. OTHER DEBT COLLECTION METHODS

The debt collection methods mentioned in the above are not exhaustive list of methods that can be applied to collect debt and any other methods that can be initiated will be implemented with the consent of council to collect debt.

27. DEBT COLLECTION COSTS

Any costs which include collection costs, charges, disbursement and legal fees to any of the debt

collection methods applied to collect the debt, will be debited to the account of the defaulting debtor. The reconnection fee charged is due and payable irrespective of whether the supply was disconnected or not.

28. METER READINGS

Meters will be read on a monthly basis, or as determined as the most efficient timetable by the Chief Financial Officer. Deviation lists are to be verified every month to ensure the correctness of the billing process. Deviations of more than 25% of the norm reported on electricity consumption are to be investigated by an inspector before billing is rendered on the account.

29. THEFT AND FRAUD

29.1 The Municipality does not condone theft and fraud of municipal services and will monitor the service networks for signs of tampering or irregularities.

29.2 The Council may approve specific penalties for cases of vandalism and theft.

1st offence: R1110.00 for the disconnection at the pole and removal of the meter as well as an estimate of lost revenue.

2nd offence: R2221.00 for the double tamper for the disconnection at the pole and removal of the meter and entire service as well as an estimate of lost revenue.

3rd offence: R5290.00 for the disconnection at the pole and removal of the meter as well as an estimate of the lost revenue and full outstanding debt should be paid.

17.3 Subsequent acts of tampering may lead to a refusal to supply certain services for determined periods.

30. IRRECOVERABLE DEBT

Criteria for irrecoverable debt

- (i) Debt will only be considered as irrecoverable if it complies with the following criteria:
- (ii) (a) all reasonable notifications and cost effective legal avenues have been exhausted to recover a specific outstanding amount; or
- (iii) any amount as determined by Council from time to time, will be considered too small, after having followed basic checks, to warrant further endeavours to collect it; or
- (iv) the cost to recover the debt does not warrant further action; or

- (v) the amount outstanding is the residue after payment of a dividend in the rand from an insolvent estate; or
 - (i) there is a danger of a contribution; or
 - (ii) no dividend will accrue to creditors; or
- (vi) a deceased estate has no liquid assets to cover the outstanding amount following the final distribution of the estate; or
 - (i) where the estate has not been reported to the Master and there are no assets of value to attach; or
- (vii) it has been proven that the debt has prescribed; or
- (viii) the debtor is untraceable or cannot be identified so as to proceed with further action; or
 - (i) the debtor has emigrated leaving no assets of value to cost effectively recover Councils claim; or
- (ix) it is not possible to prove the debt outstanding; or
 - (i) a court has ruled that the claim is not recoverable; or
- (x) the outstanding amount is due to an irreconcilable administrative error by the Municipality; or
- (xi) arrears owed by previous Administrations, amongst themselves, that now form part of the Lukhanji Local Municipality; or
- (xii) expenditure incurred, in respect of internal accounts raised in the name of the Lukhanji Local Municipality, in any previous financial year; or
- (xiii) conversion of old dormant account balances of debtors, inherited from the previous municipalities which now form part of the Lukhanji Local Municipality, and where reasonable steps have been taken to recover these debts; or
- (xiv) all debtors who are registered as indigent as more fully set out in item 10 will have their arrears written off; or
- (xv) if an offer of full and final settlement is confirmed in writing by the Accounting Officer in terms of section 14 (2) of the Lukhanji Local Municipality: Credit Control and Debt Collection policy; or
- (xvi) All arrears may be written off to bad debts where Council-
 - (i) Expropriates any property; or
 - (ii) Purchases any property in terms of item 10 (1) (f); or
- (xvii) all arrears may be written off to bad debts where a property has been forfeited to the State in terms of the Prevention of Organised Crime Act 121 of 1998; or

- (i) Where the occupiers have been evicted from Council, Provincial or State properties due to criminal activities; or
- (xviii) through supporting the municipality's housing related debt management
- (xix) processes and in instances where a housing debtor has applied for and been granted a housing indigent grant in terms of the Housing Indigent Policy, all debt related to that property for that debtor (excluding capital debt of home ownership units), up to the date of granting of indigent status will be written back. Such write back will occur only once for any debtor, thereby allowing for a once off rehabilitation, where after the debtor will immediately be subject to the housing debt management policy should the account again fall into arrears; or
- (xx) where an item 7 dispute or a section 62 appeal determines what needs to be written off; or
- (xxi) where the Director: Housing advises the Director: Revenue that a housing debtor has been granted a housing indigent grant such debtors rates, services and sundry debt related to that property for that debtor shall be written off once; or
- (xxii) where registered non-profit organisations or public benefit organisations would, except for there being arrears on their Municipal accounts, qualify to receive a 100% rates rebate, in terms of the Rates Policy, will, with effect from the date of qualification, have all their arrears written off, thus ensuring that they meet all the criteria to receive the rates rebate and;
 - (i) this assistance will only be granted once to an organization subject to the condition that an electricity prepayment meter management device must be installed, where applicable;
 - (ii) should any tampering with or bypassing of electricity meters be discovered, any arrears written-off, in terms of this sub-item, will become payable with immediate effect and any other action as per any legislation or policy that applies to such tampering and/or bypassing will be instituted;
 - (iii) should the Accounting Officer become aware that the focus of the organization has changed, or its financial position has improved or its registration as a non-profit organisation or public benefit organisation has lapsed or terminated within three years after the arrears were written-off, such arrears will become payable with immediate effect.

31. APPLICATION OF THE POLICY

The Council reserves the right to differentiate between different categories of customers, debtors, services or service standards when applying the Policy. The Council will on application of the credit control policy avoid discrimination

as forbidden by the Constitution unless it is established that the discrimination is fair as allowed by the Constitution.

32. EFFECTIVE DATE

The policy shall come to effect upon approval by Council.

33. POLICY ADOPTION

This policy has been considered and approved by the COUNCIL OF LUKHANJI LOCAL MUNICIPALITY as follows:

Resolution No:

Approval Date:

N Makanda
Executive Mayor

S Nkonki
Acting Municipal Manager

LUKHANJI MUNICIPALITY

BUDGET AND TREASURY DIRECTORATE



FINAL REVIEWED WRITE OFF POLICY

Reviewed Policy by Chief Financial Officer
045 807 2001/2
nntshanga@lukhanji.gov.za
Adopted 28 May 2015

INTRODUCTION

- 1.1 To ensure that household consumers with no or lower income are not denied a reasonable service and that the municipality is not financially burdened with non-payment of services, the Council of LUKHANJI Municipality approved a revised Indigent Policy and Bylaw.
- 1.2 However, the Council is faced with a significant amount of outstanding debt and the continuous defaulting by certain consumers who can afford to pay for services. The Council approved a revised Credit Control and Debt Collection Policy and Bylaw.
- 1.3 Despite strict enforcement of the above policies and Bylaws, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. To allow this the approved Credit Control Policy, inter alia, stipulated that:-
 - 1.3.1 The Municipal Manager must establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality.
- 1.4 In addition, the policy further stipulates that:-
 - 1.4.1 Council must appoint use Finance Standing Committee in terms of its delegations to review and recommend to Council to approve all bad debt write off cases.

2 PURPOSE OF THE POLICY

- 2.1 The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalised.

3 RESPONSIBILITY / ACCOUNTABILITY

- 3.1 The Council has the overall responsibility for adopting and approving the Policy on Writing Off of irrecoverable debt.

4 POLICY PRINCIPLES

- 4.1 The following are the guiding principles in implementing the Policy on Writing Off of Irrecoverable Debt:-
 - 4.1.1 The policy has been compiled in accordance with the Local Government Municipal Finance Management Act (MFMA), 2003, Local Government Municipal Systems Act (MSA), 2000, as amended and other related legislation.
 - 4.1.2 Before any debt is written off it must be proved that the debt has become irrecoverable. To ensure that recommendations for write off are consistent and accurate, irrecoverable debt will be defined as debt where:-

1. The tracing of the debtors is unsuccessful; and
2. All reasonable steps, at the discretion of the appointed write off committee, were taken by the officials to recover the debt.

Bad debt write offs must be considered in terms of cost benefit; when it becomes too costly to recover and the chances of collecting the debt are remote, a write off should be considered.

- 4.1.3 Time value of money is very important because the older the debt becomes, the more difficult and costly it becomes to collect. It is therefore imperative that a proper system of credit control is implemented and maintained to avoid debt reaching the stage of becoming too expensive to recover.
- 4.1.4 Differentiation must be made between those household consumers who cannot afford to pay for basic services and those who just do not want to pay for these services.
- 4.1.5 Debt can only be written off if the required provision exists in the Municipality's budget and/ or reserves.

5 CATEGORIES OF DEBTORS THAT MAY QUALIFY FOR THE WRITING OFF OF IRRECOVERABLE DEBT

5.1 Approved Indigent Household Consumers in terms of the Municipality's Indigent Policy

- 5.1.1 Upon approval for registration as an indigent household consumer, the debtor's outstanding balance as at the date of approval is written off at the expiry of six months since registration as an indigent.
- 5.1.2 Any new arrears accumulated by the debtor (i.e. any amounts in excess of the indigent allowance for free basic services) whilst registered as an indigent consumer, will not qualify to be written off and must be dealt with strictly in accordance with the Municipality's Credit Control and Debt Collection Policy and Bylaw and the Indigent Consumer Policy and Bylaw

5.2 Balances too small to recover considering the cost for recovery

- 5.2.1 Where final accounts have been submitted and paid by the respective consumer and the remaining balance after finalisation of any final readings and other administrative costs results in a balance of one hundred rand (R100) or less, such account must be forwarded once to the consumer for payment.
- 5.2.2 Where such account is not paid by the respective consumer within a period of ninety (90) days such amounts will automatically be written off subject to the provisions of paragraph 6.4 below.

5.3 Insolvency of the Debtor and Insolvent Deceased Estates

- 5.3.1 Where a debtor becomes insolvent the Municipality must ensure that a creditor's claim is timeously registered. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to an insolvent estate must, after notification, be written off subject to the provisions of paragraphs 6.4, 6.5 and 6.6 below.
- 5.3.2 In case of death of the debtor a creditor's claim must be timeously registered against the deceased's estate. Any amount not being recovered due to insufficient funds or if there is a risk of a contribution being made to a deceased estate must, after notification, be written off subject to the provisions of paragraphs 6.4, 6.5 and 6.6 below.

5.4 Untraceable Debtors

- 5.4.1 Where for any reason the forward address of a debtor becomes untraceable or the debtor becomes untraceable from the current address, such account must be handed over to a collection agent for recovery of the debt. The Terms of Reference for such collection agent must include the appointment of a tracing agent to locate the debtor. Should a debtor be untraceable, the collection agent must report to the Municipality on the actions that were taken to attempt to trace the debtor.
- 5.4.2 Any amount owed by a debtor that has become untraceable must, after notification, be written off or sold to a debt collection agency at a discount.
- 5.4.3 Debt written off in the above instances will automatically result in the debtor being reported to the credit bureau by the Municipality.

5.6 Special Incentives introduced to the arrear debt as at 30 June 2010 by Council for Household Consumers in terms of the Credit Control and Debt Collection Policy

- 5.6.1 Notwithstanding the Municipality's Credit Control Policy the council may determine an incentive scheme to encourage the payment of the current account by giving various discounts or rebates on arrear amounts(30 June 2010). Such discounts and rebates will be determined by the council when such a scheme is implemented. The debtor may enter into a written agreement with the Municipality to repay any outstanding and due amount to the Municipality under the following conditions:-
- The outstanding balance, costs and any interest thereon shall be paid in regular and consecutive monthly instalments;
 - The current monthly amount must be paid in full; and
 - The written agreement has to be signed on behalf of the Municipality by a duly authorised officer(CFO).
- 5.6.2 In order to determine monthly instalments, a comprehensive statement of assets and liabilities and income and expenditure, must be provided by the debtor and reviewed by a finance official. To ensure the continuous payment of such arrangement the amount determined must be affordable to the consumer (i.e. amount not to exceed 25% of gross income), taking into account that payment of the monthly current account is a prerequisite for concluding an arrangement.
- 5.6.3 Due to ineffective implementation of credit control measures in the past, the majority of household consumers have accumulated significant arrear amounts and these consumers are not in a position to pay off these arrear amounts in full together with their current monthly accounts. In order to improve the current payment levels from consumers the Municipality has resolved to implement special incentives to address the arrear debt dating back to June 2010.

5.6.4 To encourage consumers to pay off arrear debt Council will enter into a once-off arrangement, with a household consumer only, to pay off his/ her arrear debt over a period of time in terms of specific incentives. The main aim of this agreement will be to promote full payment of the current account and to address the arrears on a consistent basis.

5.6.5 Writing off any debt in terms of such an agreement will be strictly in accordance with the provisions set out in the Municipality's Credit Control and Debt Collection Policy.

Where a debtor pays 50% or more on the principal portion of his/her arrear account of debt 30 June 2010 or settles the principal portion of the arrear account in full through a once-off payment, all interest penalties on arrear amounts will be written off immediately. All arrears after 30 June 2010 meaning 01 July 2010 must be paid in instalments after entered into payment arrangements.

5.6.6 Where arrangements are made to pay off the principal portion of the arrear amount in instalments, such instalments should be determined on the outstanding amount excluding arrear interest. Such an arrangement should be honoured for at least a six-month consecutive period where-after interest on arrear amounts will be written off on a monthly basis. This arrangement will imply that upon payment of the final instalment all interest on arrear amounts will have been written off.

5.6.7 Where debtors fail to honour their arrangements without prior consultation interest will be reinstated and added to the original debt amount.

5.6.8 The arrangement referred to in paragraph 5.6.4 may be extended to other Poverty Alleviation & Job Creation Strategies that the Municipality may implement. Such strategies may include:-

- The casual/contract employment of a debtor in a particular Municipal project (i.e. refuse collection, road maintenance, verge cutting etc.).
- A 50% cash payment to the debtor and 50% payment that will be credited against the debtor's arrear account.
- The accounting treatment shall be that the project or programme will be debited (charged) full 100% as this will be the input cost of the labour (100% cost paid out as 50% cash paid to the debtor and 50% credited against the debtor's arrear account as though it were a cash payment).

5.6.9 The purpose of the above strategy/arrangement is to instil a sense of pride to the customers of the Municipality that cannot pay off their arrears, whilst extending services delivery, creating jobs and alleviating poverty and at the same time reducing the Debtors Book and enhance the financial viability and image of the Municipality.

5.6.10 any property sold after incentive is granted, 50% of the amount will be recovered from sale of the property in question

5.7 Registered Destitute and Indigents

A debtor who submitted building plans after the write off is granted the full amount will be recovered.

6. ESTABLISHMENT OF A COMMITTEE TO MONITOR ANY DEBT TO BE WRITTEN OFF

6.1 Finance Standing Committee will serve as a Committee to monitor the implementation of this Policy. And be chaired by Portfolio Head Finance.

All write off's from account balance R 1000 to R 50 000 will be considered by this committee and approved. From R 50 001 recommendation for Council approval will be done by this committee.

5.2 The Committee will consist of the following members:-

6.2.1 The Municipal Manager;

6.2.2 Chief Financial Officer;

6.2.3 Officials from the Finance Department designated by the Chief Financial Officer;

6.2.4 The above Committee will meet at least quarterly to receive and review a report from the Chief Financial Officer containing full details of any actions taken by officials with respect to this Policy and to consider any circumstances not covered by this Policy. In respect of meetings the following arrangements will prevail:-

6.3.1 The quorum for the Committee shall be 50% of the members plus one.

6.3.2 Formal minutes of Committee meetings must be prepared and submitted to Mayoral Committee and onward transmission to Council.

7. Details of the Debt to be written Off

Debtors Name

Debtors Address

Description of the Debt

Period of the Debt and or Debt of Invoice

Amount to be written Off

Reason for the write Off

Supporting Documentation must be retained and available that shows:

Evidence to support write off

Recovery history

Details of tracing and enquiries carried out

8. IMPLEMENTATION AND REVIEW OF THIS POLICY

8.1 This policy shall be implemented once approved by Council. All future submissions for the writing off of debt must be considered in accordance with this policy.

8.2 In terms of section 17 (1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

9. EFFECTIVE DATE

The policy shall come to effect upon approval by Council.

10. POLICY ADOPTION

This policy has been considered and approved by the COUNCIL OF LUKHANJI LOCAL MUNICIPALITY as follows:

Resolution No:

Approval Date: 28 May 2015

N Makanda
Executive Mayor

S Nkonki
Acting Municipal Manager

LUKHANJI

LUKHANJI LOCAL MUNICIPALITY



VIREMENT POLICY (TRANSFER OF FUNDS)

*Prepared by Chief Financial Officer
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Adopted 28 May 2015*

PREAMBLE

WHEREAS the Municipal Finance Management Act (MFMA) aims to enable managers to manage, but to make them more accountable by introducing regular and consistent reporting requirements. The challenge facing all the role-players is to improve the efficiency and effectiveness of the municipality through the best use of management information.

WHEREAS this policy assists management in complying with the MFMA and ensures that financial information is correctly recorded in the financial system.

INDEX

	Page
1. Definitions	4
2. Legislative Framework	6
3. Objectives of the Policy	7
4. Application of the Policy	7
5. Budget Regulations	8
6. Virement Process	10
7. Accountability	12
8. Compliance and Enforcement	12
9. Effective Date	12
10. Policy Adoption	12

1. DEFINITIONS

Act

“ - means the Municipal Finance Management Act (MFMA), 2003 (Act No. 56 of 2003)

Accounting Officer (MFMA)

“- (a) in relation to a municipality, means the municipal official referred to in section 60; or...”

Approved Budget (MFMA)

“ - means an annual budget -

(a) approved by a municipal council; or

(b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28;”

Chief Financial Officer

“means the officer of the Lukhanji Local Municipality designated by the Municipal manager to be administratively in charge of the budgetary and treasury functions.”

Financial year/Budget year

The 12 month period between 1 July and 30 June.

Vote (MFMA)

(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.”

In the case of the Lukhanji Local Municipality the definition of Vote is defined in terms of National Treasury GFS functions.

GFS – Government Finance Statistics.

In order to facilitate comparisons, GFS functions provide a reasonably high level grouping of related service delivery activities for Local Government.

Refer definitions as prescribed by National Treasury in terms of MFMA Circular no. 12 – Definition of a “vote” in MFMA.

Operating Cost Centres

is defined as the various expenditure departments that the Local Municipality has been distributed into and against which expenditure is allocated in the financial system.

Line item

is defined as various items which reflect the budget/costs of the municipality in terms of its activities

Virement

The process of transferring an approved budgetary provision from one operating cost centre to another within a vote during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the approved budget.

Overspending (MFMA)

“(a) in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

(b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26, means causing expenditure under that section to exceed the limits allowed in subsection (5) of that section;”

Unauthorized expenditure (MFMA)

“in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA”

Any other word or expression to which a meaning has been assigned in the Municipal Finance Management Act, Act No 56 of 2003, and the Local Government Municipal Systems Act, Act No. 32 of 2000, unless inconsistent with the context shall, wherever such word or expression appears in the policy, bear the same meaning as that assigned to it in the said legislation.

2. LEGISLATIVE FRAMEWORK

- 2.1 Section 81(1)(d) of the Act states inter alia that “The chief financial officer of a municipality -... must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79;”
- 2.2 Section 78(1)(b) of the Act states inter alia that “Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure - ... (b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;”
- 2.3 National Treasury has issued Municipal Budget and Reporting Regulations in terms of Government Gazette Number 32141 dated 17 April 2009. These regulations set out the manner in which Municipalities are required to report their annual, monthly, mid-year and adjustments Budgets.

The objectives of the budget formats reforms in terms of these regulations are:

- To ensure that the municipal budget and financial reporting formats support the other financial management reforms introduced by the Act;
- To formalise the norms and standards governing municipal budget and financial reporting formats, so as to improve the credibility, sustainability, transparency, accuracy and reliability of budgets and in-year reports of municipalities.
- To improve Council's ability to deliver basic services to all by addressing issues of financial sustainability;
- To facilitate informed policy choices by Council and medium term planning of service delivery by aligning targets to achieve backlog elimination.

2.4 MFMA Circular No 51 (Dms 633560) issued on 19 February 2010 states that each municipality must put in place a Council approved Virement Policy, which should provide clear guidance to managers of when they may shift funds between items, projects, programmes and votes.

3. OBJECTIVES OF THIS POLICY

- 3.1. To allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.
- 3.2 The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. The Municipality's virement policy and its underlying administrative process within the system of delegations is one of these controls.

- 3.2 It is the responsibility of each Head of Department to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted and to ensure that funds are utilised effectively and efficiently.
- 3.3 This policy aims to provide guidelines to management in the use of virement as a mechanism in their day-to-day management of their budgets. In addition it specifically aims to empower Head of Departments with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the Act and the municipality's system of delegations.

4. APPLICATION OF THE POLICY

- 4.1 This policy applies only to transfers between line items within votes of the Municipality's budget.
- 4.2 Section 28(2) (d) read together with section 69 of the MFMA provides that *“An adjustments budget...may authorise the utilisation of projected savings in one vote towards spending in another vote.”* Transfers between votes may therefore be authorised only by the Council of the Municipality.
- 4.3 For ease of reference, the definition of “vote” as contained in Section 1 of the MFMA is set out hereunder:
“vote means –
(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.”
- 4.4 Any deviation from or adjustment to an annual budget or transfer within a budget which is not specifically permitted under this policy or any other policy may not be performed unless approved by the Council through an adjustment budget.

5. BUDGET REGULATIONS

The Act regulates as follows regarding the incurring of expenditure against budgetary provisions.

5.1 Section 15 of the Act – Appropriation of funds for expenditure

“A municipality may, except where otherwise provided in this Act, incur expenditure only -

- (a) in terms of an approved budget; and
- (b) within the limits of the amounts appropriated for the different votes in an approved budget.”

5.2 Section 28 of the Act – Municipal Adjustments Budget

“A municipality may, revise an approved annual budget through an adjustments budget.

5.3 Unauthorised Expenditure

As defined and includes -

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for a specific purpose;

- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
 - (f) a grant by the municipality otherwise than in accordance with this Act;”
- 5.4 Section 71 (1)(g)(iii) states inter alia *“(1) The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:...(g) when necessary, an explanation of- ... (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget....”*
- 5.5 Section 72 (3)(a) states inter alia *“The accounting officer of a municipality must assess the performance during the first half of the financial year, taking into account:-...(3)(a) make recommendations as to whether an adjustments budget is necessary and (b) recommend revised projections for revenue and expenditure ...”*
- 5.6 MFMA Circular No 51 guides Municipalities on what principles should be incorporated into the municipal virement policies:
- 5.6.1 Virements should not be permitted in relation to the revenue side of the budget;
 - 5.6.2 Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);
 - 5.6.3 Virements from the capital budget to the operating budget should not be permitted;
 - 5.6.4 Virements towards personnel expenditure should not be permitted;
 - 5.6.5 Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;
 - 5.6.6 Virements should not result in adding ‘new’ projects to the Capital Budget;

- 5.6.7 Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and There should be prudent limits on the amount of funds that may be moved to and from votes and sub-votes, and in the event that this limit is exceeded Council approval be obtained prior to virement.

6. VIREMENT PROCESS

- 6.1 The virement process represents the major mechanism to align and take corrective (financial / budgetary) action within a vote during a financial year.
- 6.2 In order for a “vote” to transfer funds from one cost centre to another cost centre, a saving has to be identified within the monetary limitations of the approved “giving” cost centre or capital project allocations on the respective budgets.
- 6.3 Sufficient, (non-committed) budgetary provision should be available within the “giving” vote’s cost centre concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost centre or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.
- 6.4 Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget as set out in terms of Act Section 28 and the Municipal Budget and Reporting Regulations.
- 6.5 In terms of Section 17 of the Act a municipality’s budget is divided into an operating and capital budget and consequently no Virements are permitted between Operating and Capital Budgets.

6.6 Virements are not permissible across, or between, votes unless adopted via an Adjustment budgets as set out in terms of Act Section 28 and the Municipal Budget and Reporting Regulations.

6.7 Virements across votes will only be allowed at year-end at the discretion of the Chief Financial Officer in order to ensure accurate reporting in financial statements.

6.8 Virements are not allowed to utilise special purpose budgetary allocations, adopted by Council as such and to which specific Council recommendations apply (e.g. budget strategy for growth in repairs and maintenance provisions) and which result from specific resolutions adopted when adopting the budget, as virement sources.

6.9 Sound motivations should be provided for all virements.

6.10 Specific virement limitations:

6.10.1 To the extent that it is practical to do so, transfers within the first three months and the last month of the financial year should be avoided.

6.10.2 No virements are permitted to and from Grants and Subsidies Paid, except if supported by Council decision for such transfer and as per the approved Grants-in-Aid Policy.

6.10.3 Virements towards personnel expenditure including Councillors remuneration is not be permitted unless adopted via an Adjustment Budget.

6.10.4 No virements are permitted to and from the following expenditure items:

- ☐ Bulk Purchases
- ☐ Debt Impairment
- ☐ Interest Charges and Depreciation
- ☐ Employee Related costs
- ☐ Indigent Relief and Revenue Forgone
- ☐ Insurance

- ❑ Departmental Charges

6.10.5 No virements are permitted to the following expenditure item:

- ❑ Entertainment

- 6.11. No virements will be approved on any Revenue element. Revenue provisions' amendments are to be adopted via an adjustments budget.
- 6.12 As Council approves a detailed Capital Budget by individual project virement are permitted between capital projects.
- 6.13 No virements of which the affect will be to add “new” projects onto the Capital Budget, will be allowed unless Council approval is obtained via adjustment budget.
- 6.14 Virements may not cause an increase to individual projects' total project cost unless Council approval is obtained.
- 6.15 Virements must be between projects of similar funding sources.
- 6.16 Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).
- 6.17 Motivations for virements should clearly state the reason for the saving within the “giving” project, as well as the reason for the additional amount required.

7. ACCOUNTABILITY

1. Approval of virement lies with the Chief Financial Officer or such other senior delegated officials in Financial Services Department.

8. COMPLIANCE AND ENFORCEMENT

- a) Violation of or non-compliance with this policy will give a just cause of disciplinary steps to be taken.

- b) It will be the responsibility of the Municipal Manager to enforce compliance with this policy.

9. EFFECTIVE DATE

— The policy shall come to effect upon approval by Council.

10. POLICY ADOPTION

This policy has been considered and approved by the COUNCIL OF LUKHANJI LOCAL MUNICIPALITY as follows:

Resolution No:

Approval Date:

Cllr N Makanda
Executive Mayor

S Nkonki
Acting Municipal Manager



LUKHANJI LOCAL MUNICIPALITY



CONTRACT MANAGEMENT POLICY Draft

Table of Contents

Heading	Pages
1 Pre-amble.....	2
2 Definitions.....	3
3 Abbreviations.....	4
4 Objectives.....	5
5 Statutory and Regulatory Framework for Management Contracts.....	5
6 Contract Life Cycle.....	6
7 Identification and Classification of Contracts.....	9
8 Recognition, Measurement and Disclosure of Contracts.....	9
9 Planning, Budgeting and Reporting Cycle.....	10
10 Oversight of Contract Management.....	11
11 Resourcing Contract Management Activities.....	11
12 Documents and information Management.....	12
13 Relations Management.....	12
14 Performance Management.....	14
15 Preparation and Execution of Service Level Agreement.....	18
ANNEXURE A: Roles and Responsibility for Contact Management.....	22
ANNEXURE B: Contract and Performance Management Flow Charts	26
ANNEXURE C: Contract life Cycle Check List.....	27

1. PRE-AMBLE

All transactions undertaken by Lukhanji Municipality involve a contract whether explicitly agreed in writing, or implicitly implied through actions. Properly managed contracts by all stakeholders involved, can ensure that services are delivered within specifications and at the agreed cost, (Inclusive of escalation clauses in contracts) time period, quantities of the goods and quality service procured. All contracts must be managed throughout the contract Life Cycle, based on the level of management control appropriate for the classification of that contract. Improperly managed contracts may impact negatively on service delivery. Adverse effects of poor contract management include but are not limited to:

- 1.1. goods and services outside of specification;
- 1.2. cost overruns;

1.3. poor supplier, buyer or other stakeholder relations;

1.4. negative public perception;

1.5. protracted legal disputes; and

1.6. potentially complete service delivery failure.

Hence, good contract management by all stakeholders involved is essential for good financial management and will contribute greatly to the effectiveness and efficiency of service delivery. In effect it would give strategic direction to all directorates following a centralized strategy of contract management. This policy must be read in conjunction with the SCM Policy of the Lukhanji municipality.



2. DEFINITIONS

In this Policy, unless the context indicates otherwise-

Accounting Officer (in relation to a municipality)	Means the municipal official referred to in section 60 of the MFMA (2003); and include a person acting as the accounting officer.
Act or MFMA	Means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
Circular 62	Means communication from National Treasury by Means of a Circular to enhance compliance and accountability to SCM Regulations and the MFMA of 2003.
Construction Industry Development Board (CIDB):	Means the Construction Industry Development Board (CIDB), a national body established by an Act of Parliament (Act 38 of 2000) to oversee the sustainability and growth of construction enterprises across the country.
Contract	Means the agreement that results from the acceptance of a bid by the Municipality (mutual agreement) Contract Alteration Means changing technical writing or input errors to the agreement of the contract without changing the scope of contract.
Service Level Agreement	Means the agreement between the Municipality and a service provider, it details the nature, quality, and scope of the service to be provided.
Contract Amendment	Means changing the scope, nature, duration, purpose or objective of the agreement or contract (In context of Circular 62 and section 116 (3) of the MFMA).
Project Manager	Means the Manager responsible for the day to day activities (including performance management and dispute resolution) during the life cycle of the contract (with delegated powers to perform this function).
Contract Management	Means the holistic term of all role players involved in an agreement (SLA/SDA) or contract and include the; Contracts Manager, user department, Project Manager and supplier.
Contracts Manager	Means the official responsible for monitoring, regulating and reporting on all contract related activities as set out in Section 116 of the MFMA.
User Department	Means the Department that is ultimately accountable for all activities during the life cycle of the contract, relevant to his/her directorate.
Delegation (in relation to a duty)	Includes an instruction or request to perform or to assist in performing the duty.

Force Majeure	Is the expression used to denote irresistible superior force which might cause damage or prevent the execution of an obligation, therefore suppliers is not liable for damages caused by force majeure or for failure to carry out a contract if prevented (Term and conditions in this regard will be determined by every individual contract/s).
Official (<i>In relation to a municipality</i>)	Means: >an employee of a municipality; > a person seconded to a municipality to work as a member of the staff of the municipality; or > a person contracted by a municipality to work as a member of the staff of the municipality otherwise than as an employee.
Users	Means all officials as set out in the organogram of Lukhanji Municipality involved with contracts.
Pre-Award	Means prior to the Municipality enter into a contract with the service provider/contractor
Post-Award	Means subsequent to the Municipality entering into a contract with the service provider/contractor.

3. ABBREVIATIONS

BEE	Black Economic Empowerment
B-BBEE	Broad-Based Black Economic Empowerment
GCC	General Conditions of contract.
LG: MSA	Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).
NT	National Treasury established by section 5 of the Public Finance Management Act.
SCC	Special Conditions of Contract.
SDA	Service Delivery Agreement.
SLA	Service Level Agreement
SCM	Supply Chain Management
UD	User Department
FD	Finance Department
LS	Legal Services
MM	Municipal Manager
CM	Contracts Management
Co	Contractor
BSC	Bid Specification Committee

BEC	Bid Evaluation Committee
BAC	Bid Adjudication Committee

4. OBJECTIVES

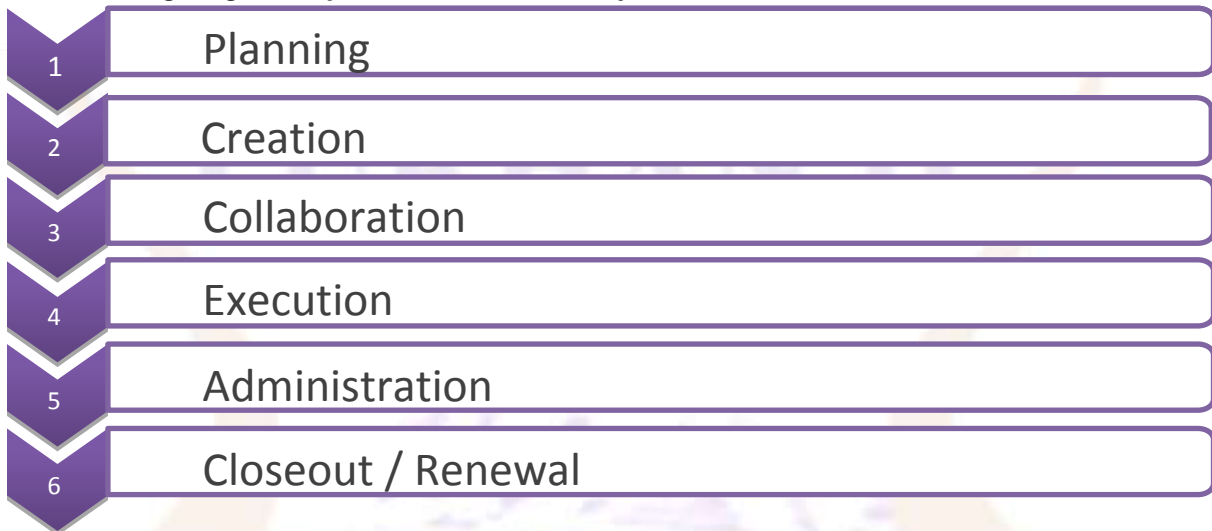
- 4.1. The effective and efficient control of contracts procured through the SCM system ensuring:
 - 4.1.1. proper recording and enforcement of contracts throughout the contract life cycle (from specifications to contract reviews);
 - 4.1.2. support to the demand management framework, optimizing proper planning, resulting in effective service delivery;
 - 4.1.3. management of Contract Performance;
 - 4.1.4. to assist officials in understanding their legal and managerial responsibilities with regards to contract management;
- 4.2. To ensure that all contracts by the municipality are procured within the SCM system.

5. STATUTORY AND REGULATORY FRAMEWORK FOR MANAGING CONTRACT

- 5.1 Regulatory Framework and Application of the Contract Management
 - 5.1.1. All officials and other role players in the Municipality must implement this policy in a way that gives effect to:
 - 5.1.1.1. Section 217 of the Constitution;
 - 5.1.1.2. Section 116 of the MFMA;
 - 5.1.1.3. Section 33 of the MFMA;
 - 5.1.1.4. SCM Policy; and
 - 5.1.1.5. any other regulations pertaining to Supply Chain Management
 - 5.1.2. The Policy applies to all contracts procured through the supply chain management system of the Municipality.

6. CONTRACT LIFE CYCLE

The following diagram depicts the contract life cycle.



6.1. Planning

- 6.1.1. Projects should be identified from the Integrated Development Plan (IDP), sourced from the needs of the Community and the Municipality.
- 6.1.2. Identified projects should be approved by the Council of the Municipality and be incorporated in the IDP and linked to the strategic objectives of the Municipality which in turn will be assigned an appropriate budget.
- 6.1.3. Based on the appropriated budget and developed operational plan, the need for contract should be established in order to execute the operational plans.
- 6.1.4. User Departments must ensure that projects emanating from the strategic objectives contained in the approved IDP are appropriately budgeted for and operational plans or service delivery and budget implementation plans (SDBIP) are developed.
- 6.1.5. Contracts Management Section of the Municipality in consultation with SCM Section of the Municipality must ensure that contracts for projects linked to strategic objectives are procured through an appropriate procurement process.

6.2. Creation

- 6.2.1. Contract Management through SCM Section of the Municipality must be informed timeously of any tender awarded for procurement of goods and services.
- 6.2.2. Contract Management and Legal Services of the Municipality must ensure that appropriate contract documentation for the relevant class of contract is documented and approved by both the Contracts Manager and the user department.

6.3. **Collaboration**

- 6.3.1. Prior to engaging the appointed service provider, the user department, Legal Services and Contracts Management section must review the drafted contract to ensure that the contract will give legal and non-legal effects to the requirements of all parties to the contract.
- 6.3.2. After the service provider has been approved for the appointment, the user department and Legal Department must discuss the terms and conditions of the contract including the expected deliverables with the appointed contractor to ensure that the terms and conditions of the contract give effect to the requirements of both parties.
- 6.3.3. The negotiated contract must be in line with, and must not be materially different from the tender specifications and awarded tender.

6.4. **Execution**

- 6.4.1. User department must enter into the contract with the appointed service provider and the contract must be endorsed by the Municipal manager of the Municipality.
- 6.4.2. Contracts Manager and the Head of SCM must also sign the contract as witness to the contract.
- 6.4.3. The contract will only be enforceable after all the signatures of the relevant parties are documented, therefore the signatures must include the initial on all pages by the User department and delegated representative of the appointed contractor.

6.5. **Administration**

- 6.5.1. Contract administration includes all administrative (monitoring and evaluation) duties associated with a contract once it is implemented.
- 6.5.2. Contracts Manager and the user department must from time to time review the following with regards to the contract once it implemented;
 - 6.5.2.1. Contract pricing and discounts(if applicable);
 - 6.5.2.2. Timeliness of payments and or receipts;
 - 6.5.2.3. Performance in delivering agreed service level or specifications of goods and services; and
 - 6.5.2.4. Applicable amendments.
- 6.5.3. The contract should be signed by all parties concerned (the user department must ensure that the service provider has the delegated powers to sign and amend the contractual agreement).

- 6.5.4. A signed service level agreement (if applicable) must be compiled and signed which will incorporate all the relevant sections of the tender documentation.
- 6.5.5. All once-off purchases shall have a specified end delivery date.
- 6.5.6. Contracts **Manager** must ensure that the contract register recording all contracts of the Municipality is maintained by the Contracts Management section of the supply chain unity.
- 6.5.7. The contracts register contains the following information;
 - 6.5.7.1. Details of awarded tender (i.e. Name of the service provider, Value of Contract, Contract ID number, Contract description and Date of award);
 - 6.5.7.2. Duration of the contract (Start and End date of the contract);
 - 6.5.7.3. Contract Type;
 - 6.5.7.4. Details of price escalation, if applicable;
 - 6.5.7.5. Details of the Project Manager; and
 - 6.5.7.6. Progress payments made under the contract.
- 6.5.8. A senior official must review the contract register on a quarterly basis for completeness and accuracy.

6.6. Close-out / Renewal

- 6.6.1. Contracts **Manager** in consultation with the user department and Project Manager must assess the performance of the service providers at the regular interval during the contract life cycle and importantly at the close-out or renewal of contract.
- 6.6.2. A review of the following issues should be considered when the performance under the contract is assessed;
 - 6.6.2.1. actual quantities, prices, total values against budgeted quantities, prices and total values;
 - 6.6.2.2. actual timeliness of delivery under the contract against the contracted timeframes;
 - 6.6.2.3. actual service levels or specifications of goods and services against those contracted.
 - 6.6.2.4. future budgets, change suppliers or other stakeholder;
 - 6.6.2.5. outsourcing opportunities and risk strategies.

7. IDENTIFICATION AND CLASSIFICATION OF CONTRACTS

7.1 Classification of Contracts

- 7.1.1. Contracts manager in consultation with the Project Manager and user department must classify the contract according to the nature/type of procurement, value of the contract, duration of contract, complexity of contract and perceived strategic importance of a contract.
- 7.1.2. Contracts manager in conjunction with the various user departments must from time to time maintain the contract listing, the classification of contracts and update the contract register.

8. RECOGNITION, MEASUREMENT AND DISCLOSURE OF CONTRACTS

- 8.1. Contracts which require recognition and disclosure by the GRAP standards should be identified by the contract management section in consultation with Budget and Treasury Office of the Municipality.
- 8.2. The contracts that require recognition, measurement and disclosure in the Annual Financial Statements should be regularly reviewed by the Contracts Manager in consultation with the Head of Budget and Treasury and Legal Section.
- 8.3. These contracts should include the following, but not limited to;
 - 8.3.1. Contingent Assets, example include
 - 8.3.1.1. Claims instituted by the Municipality against service providers
 - 8.3.2. Contingent Liabilities, example includes
 - 8.3.2.1. Claims instituted against the Municipality by service providers; and
 - 8.3.2.2. Environmental rehabilitation liability.
 - 8.3.3. Commitments, example includes
 - 8.3.3.1. Goods and services already ordered but not yet delivered;
 - 8.3.3.2. Goods and services budgeted for but still to be ordered; and
 - 8.3.3.3. Lease commitments.
 - 8.3.4. Accrued revenue, example include
 - 8.3.4.1. Goods and services received in terms of the contract but not yet invoiced by the contractor.

9. PLANNING, BUDGETING AND REPORTING CYCLE

- 9.1 **Strategic plan and budgets:-** A comprehensive review of all existing and proposed contracts must be undertaken during the strategic planning and budget process and that:
- 9.1.1 operational plans must specify contracting requirements;
 - 9.1.2 objectives of each contract are linked to the strategic objectives of the institution;
 - 9.1.3 contracting requirements are communicated to internal and external stakeholders;
 - 9.1.4 contracts are linked to the annual procurement or sales plan; and
 - 9.1.5 Contract management function is reviewed.
- 9.2 **Budget implementation:-** this involves enforcement of contracts in such that delivery and subsequent payments are carried out.
- 9.3 **Management reporting:-** this involves monitoring and the reports useful for managing contracts includes but not limited to:
- 9.3.1 budget approved, contract not awarded (planned date of award, start and completion);
 - 9.3.2 contract awarded, not yet commenced (planned date of start and completion);
 - 9.3.3 per contract - amount contracted, no order;
 - 9.3.4 per contract - amount committed, goods or services not yet received;
 - 9.3.5 per contract – value of goods or services received, not yet paid for;
 - 9.3.6 per supplier, per contract – amounts not paid within terms;
 - 9.3.7 breaches of conditions or service delivery targets (either party);
 - 9.3.8 Significant price variations or other variations in conditions.
- 9.4 Reporting may take place during the following stages throughout the contract life cycle;
- 9.4.1 Contract inception;
 - 9.4.2 In-year reporting (monthly, quarterly and mid-year);
 - 9.4.3 Annual reporting (Audited AFS and Annual Report);
 - 9.4.4 Planning and budget (Strategic plan and budget); and
 - 9.4.5 Contract closure.

10. OVERSIGHT OF THE CONTRACT MANAGEMENT

- 10.1 The Contract Management of the Municipality is responsible for ensuring that contracts are properly implemented, managed, enforced, monitored and reported on. To facilitate appropriate oversight of contract management the accounting officer must take all reasonable steps to ensure that;
- 10.1.1 Contracts are properly classified according to the nature;
 - 10.1.2 No rights in terms of an awarded contract will accrue before the objection period of 14 days has elapsed without there being any objection to the award.
 - 10.1.3 Contract are signed by all parties concerned (should also ensure that the service providers have the delegated powers to sign and amend the contractual agreement).
 - 10.1.4 Once the final award for a tender is made the Contract management section of the Municipality must be informed, supporting approving documents and any other documentation subsequent to award are submitted to the Contracts Manager.
 - 10.1.5 The Contracts Manager submits a consolidated report on the performance of contracts or agreements to the Accounting Officer within 10 business days of the end of each quarter.
- 10.2 The contract will only be enforceable after all the signatures of the relevant parties are documented.
- 10.3 A signed service level agreement (if applicable) must be compiled and signed which will incorporate all the relevant sections of the tender documentation.
- 10.4 Contract variations should be recommended by the user department in conjunction with the Contract Manager and be submitted to the Bid Adjudication Committee before duly approved by the Municipal Manager.
- 10.5 Approved contract variations must be attached to the original, signed contract, between the Municipality and the service provider.

11. RESOURCING CONTRACT MANAGEMENT ACTIVITIES

- 11.1. The roles and responsibilities of parties involved in the management of contracts procured through the SCM system are described in the attached Annexure. Please refer to Annexure A: Roles and Responsibilities.

12. DOCUMENT AND INFORMATION MANAGEMENT

- 12.1. All contracts entered into by the Municipality must be recorded in the contract register to be maintained by Contracts Management section of the Municipality.
- 12.2. Proper records regarding all aspects of the contract must be maintained and kept in accordance with relevant legislation, i.e. SCM policy, MFMA, MFMA SCM regulations and etc. Safe custody of all contract documents must be enforced by all relevant user departments.
- 12.3. Contracts management section of the Municipality must record and document the following with regards to the contract;
 - 12.3.1. that the goods/services are received in accordance with the contract;
 - 12.3.2. that the goods/services procured are received;
 - 12.3.3. that the suppliers/contractors are paid in accordance with the contract;
 - 12.3.4. that any variations to the contract are implemented in accordance with the contract; and
 - 12.3.5. that any price escalations are implemented in accordance with the contract.
- 12.4. In instances where the price escalations provided for in the contract are approved by the delegated officials, contract management must ensure that the addendum to the contract is attached to the original contract.

13. RELATIONSHIP MANAGEMENT

- 13.1. Relationship management of the Municipality with stakeholders should take account of the factors but not limited to;
 - 13.1.1. understanding of and respect for each party's point of view;
 - 13.1.2. shared knowledge and objectives and desire for contract to succeed;
 - 13.1.3. sound understanding of contract wording and contract documents;
 - 13.1.4. willingness to resolve issues by all parties;
 - 13.1.5. effective decision making processes; and
 - 13.1.6. joint approach to managing delivery under the contract.
- 13.2. Contracts Manager in consultation with Budget and Treasury Department must ensure that the service providers are classified according to the below "Classification Framework for Relationship Management".

Prime	The top X suppliers in terms of importance to Institution's strategic objectives
Key	Business critical supplier in terms of institution's strategic objectives
Approved	Non business critical suppliers approved for repeat business subject to performance
Test	New and ad-hoc suppliers
Potential	Suppliers identified for potential future business
Exit	Suppliers to be managed out of future business

13.3. For classification purposes, the Contracts Manager in consultation with the user department should consider the following with regards to each contract;

- 13.3.1. Unique supplier ID;
- 13.3.2. Unique contract ID and description of contract;
- 13.3.3. Contract type;
- 13.3.4. Rand value of contract;
- 13.3.5. Contract duration (start and end date)
- 13.3.6. Contract classification;
- 13.3.7. Value for money assessed prior to contract execution, if applicable;
- 13.3.8. Corrective action required;
- 13.3.9. Good performance acknowledgement;
- 13.3.10. Performance rating;
- 13.3.11. Value of money achieved, if applicable; and
- 13.3.12. Whether supplier be considered for future contracts?

13.4. Classification of suppliers into the above classes should be reviewed on an annual basis by the Contracts Manager and the representative from Budget and Treasury Department.

13.5. Contract management section must consider the consideration given to continuity of suppliers and buyer staff for appropriate classification.

13.6. Regular contract management review must consider existing and potential strategic relationships with a view to deliver benefits for all relevant parties.

13.7. Contract management section must ensure that communication between the parties is on peer to peer basis, i.e. operational issues should be resolved by staff at the operational level (Project Manager).

13.8. In addition to the elements mentioned above, other factors that encourage the development of a successful relationship include:

- 13.8.1. securing senior level support in both the Municipality and service provider;
- 13.8.2. recognising that actions and attitudes affect the tone of the relationship;
- 13.8.3. ensuring that the governance arrangements are fair;
- 13.8.4. ensuring that roles and responsibilities are clearly understood by both parties and that the necessary authority levels have been ascribed;
- 13.8.5. ensuring that escalation routes are clear and understood but that problems are resolved as early as possible and as low down the management tree as possible;
- 13.8.6. separating strategic matters from the day-to-day service delivery issues;
- 13.8.7. ensuring that appropriate attitudes and behaviour are practised and displayed to assist the promotion of a positive and constructive relationship;
- 13.8.8. Communicating and sharing information at the appropriate level between the organisation and the service provider, for example strategic, business and operational levels and as openly as possible.

14. PERFORMANCE MANAGEMENT

- 14.1 Performance of the suppliers should be monitored on a regular basis and individual contracts must be managed appropriately for the classification of contract;
- 14.2 Procedures to assess the performance of suppliers in meeting the requirements of the contract must be clear, well documented and communicated to all parties prior to signing of the contract and commencement of delivery under the contract.
- 14.3 Baselines, measurement metrics, methods, data sources and collection responsibilities must be agreed with the service provider before contract signing and commencement of delivery.
- 14.4 Performance measurement metrics must be linked to service delivery agreements which are consistent with the strategic objectives of the Municipality.
- 14.5 The following performance management measurements must be considered for contracts entered into with contractors;
 - 14.5.1 Site visits in accordance with the requirements of the contracts;
 - 14.5.2 Site meetings with service providers;
 - 14.5.3 Regular performance reviews conducted in accordance with the classification of the service provider and or stakeholder;

- 14.5.4 Ad-hoc performance reviews conducted where non-performance is identified outside of the regular review process;
- 14.5.5 In instances where non-performance has been identified, a formal letter advising a specific non-performing areas and stating the remedial action(s) required within a specific timeframes must be issued to the non-performing service provider, by the Contracts Manager.
- 14.5.6 General market monitoring for market trends and compared to performance of current service providers.
- 14.5.7 Performance assessment by the user department.
- 14.6 When assessing the value for money prior to engagement, Contracts Manager must consider the following;
 - 14.6.1 Prices are within the reasonable limits for the type of goods and services;
 - 14.6.2 Procurement and other procedures were adhered to; and
 - 14.6.3 Previous performance, where applicable.
- 14.7 When assessing the value for money achieved, Contracts Manager must consider the performance rating for the contract.
- 14.8 Contracts management section of the Municipality must assess the performance of the service provider, at the regular interval during the contract life cycle and importantly at the close-out or renewal of contract.
- 14.9 When assessing the performance of the service providers, buyers or other stakeholders, parties responsible for the performance or lack thereof should be considered.
- 14.10 When assessing the performance of the service providers, the following broader obligations must be considered;
 - 14.10.1 Compliance with broader legal framework(i.e. health and safety, environment, etc.); and
 - 14.10.2 Compliance with other policy initiatives (i.e. B-BBEE, Proudly South African, etc.).
- 14.11 Reports on contract management performance should be sorted or grouped in variety of ways and combinations, which should include the following, but not limited to;
 - 14.11.1 Contract category and or type;
 - 14.11.2 Service provider, buyer or other stakeholders; and
 - 14.11.3 User department, Contracts Manager or legal advisors.
- 14.12 Contract management systems should add value to the Municipality, user department and Contracts management section.

- 14.13 With regards to the Municipality as a whole, the following metrics should be used to evaluate value of contract management systems to the Municipality;
- 14.13.1 total cost of contracting function;
 - 14.13.2 breaches of contract by service providers;
 - 14.13.3 number and cost of litigations;
 - 14.13.4 number and severity of issues identified in audits; and
 - 14.13.5 shorter cycle time for delivery for services (plan-budget-procure-deliver).
- 14.14 With regards to the User Departments, the following metrics should be used to evaluate the value of contract management systems to the user departments;
- 14.14.1 % of total spend under contracts;
 - 14.14.2 % of total spend under contracts by contract classification, suppliers;
 - 14.14.3 suppliers, buyers or other stakeholders with multiple contracts;
 - 14.14.4 goods and services with multiple suppliers / buyers; and
 - 14.14.5 survey User Departments, procurement staff, finance, legal services, audit and other internal stakeholders regarding their opinion of
 - 14.14.5.1 efficiency;
 - 14.14.5.2 user friendliness; and
 - 14.14.5.3 accessibility of contracts.
- 14.15 With regards to Contracts management section, the following metrics should be used when evaluation value of contract management system to the Contracts management section;
- 14.15.1 average number of contracts managed per contracting professional;
 - 14.15.2 average number of new contracts executed per contracting professional;
 - 14.15.3 average number of amendments executed per contracting professional;
 - 14.15.4 average time to author a new contract (by category);
 - 14.15.5 average time to negotiate a contract;
 - 14.15.6 average time to get internal approval to execute a contract;
 - 14.15.7 average time to execute a contract;
 - 14.15.8 total cycle time from contract creation to contract execution;
 - 14.15.9 % of contracts with non-standard terms;
 - 14.15.10 % of non-standard contracts not approved;
 - 14.15.11 % of contracts with penalties for non-compliance;

- 14.15.12 % of contracts with auto renewal clauses;
- 14.15.13 % of contracts with standard terms and or based on standard template;
- 14.15.14 % of contractual obligations fulfilled;
- 14.15.15 lost contracts; and
- 14.15.16 survey stakeholders regarding their opinion of
 - 14.15.16.1 efficiency;
 - 14.15.16.2 user friendliness; and
 - 14.15.16.3 accessibility of contracts.
- 14.16 As part of the annual review of the contract management policy, the performance of each contract management area, system or set of procedures and processes must be reviewed.
- 14.17 Contract Management performance should be measured in terms of at least the following;
 - 14.17.1 efficiencies achieved in reducing total annual contracting costs;
 - 14.17.2 direct and indirect administrative overheads applicable to contract management activities;
 - 14.17.3 accuracy and timeliness in recording, filing and accessing contract documentation;
 - 14.17.4 correct operation of contract management systems (*if computerised systems*, the software functioning properly);
 - 14.17.5 accuracy and timeliness of contract management reports;
 - 14.17.6 compliance with procedures; and
 - 14.17.7 retraining and / or removal of staff due to procedural breaches.
- 14.18 Performance reporting should consider the usefulness of the information for decision making.
- 14.19 Contracts management section should ensure that the performance information is relevant, accurate and timely.
- 14.20 Inception reports must be completed at inception of the contract and should incorporate the following;
 - 14.20.1 metrics;
 - 14.20.2 measurement systems; and
 - 14.20.3 measurement and reporting format and frequency.
- 14.21 Inception report must be endorsed by both the contractor and the User department.
- 14.22 The frequency of reporting must be determined taking into account the following factors;
 - 14.22.1 classification of the contract for management purposes;

- 14.22.2 classification of service providers taking into account the relationship status;
 - 14.22.3 decision useful information for User Departments and Contracts Managers; and
 - 14.22.4 material events reported by exception when they occur.
- 14.23 Monthly performance reports should incorporate the following;
- 14.23.1 notification of material events such as contract breaches and service delivery failures;
 - 14.23.2 action taken or proposed in response to breaches; and
 - 14.23.3 updates on contracts placed on watch due to previous performance issues.
- 14.24 Quarterly and mid-year report should encompass the following issues;
- 14.24.1 notification of key trigger points and milestones contained in the contracts;
 - 14.24.2 notification of impending contract end dates;
 - 14.24.3 notification of contract commencement and impending contract commencements;
 - 14.24.4 contracts budgeted for and not yet contracted;
 - 14.24.5 value committed (ordered) and not yet delivered;
 - 14.24.6 payments to service providers outside of contract terms;
 - 14.24.7 actions taken as result of contract breaches – *summary for the quarter and half-year*, and
 - 14.24.8 actions taken to commend exceptional performance – *summary for the quarter and mid-year*.
- 14.25 During both the preparation for annual report and strategic plan and budget, a comprehensive review of the existing, recently completed and proposed contracts should be undertaken.
- 14.26 Completion reports for contracts entered into with service providers should be prepared to ensure;
- 14.26.1 formal evaluation of delivery under the contract;
 - 14.26.2 overall performance under the contract; and
 - 14.26.3 cost of service to the Municipality.

15. PREPARATION AND EXECUTION OF SERVICEL LEVEL AGREEMENT

- 15.1 Service Level Agreements (SLA's) are negotiated agreements designed to create a common understanding about services, priorities and responsibilities and are applicable in two situations.

- 15.1.1 Firstly, internally used and provided specialist support services; and
- 15.1.2. Secondly when outsourcing.

- 15.2. The purpose of SLAs and setting service levels is to enable the Municipality to monitor and control the performance of the service received from the supplier against agreed standards.
- 15.3. Contracts management section of the Municipality should ensure that service levels are agreed and benchmarked for both the Municipality and suppliers and should be:
 - 15.4. established at a reasonable level; if they are set too high they will attract additional charges from the supplier;
 - 15.4.2. prioritised by the customer in order of importance and on an agreed scale for example critical, major, urgent, important, minor, easily monitored, such as objective, tangible and quantifiable;
 - 15.4.3. unambiguous and understandable by all parties; and
 - 15.4.4. open to re-negotiation at any time.
- 15.5. After the appointment of the service provider, a service relationship must be established and a service level agreement must be entered into.
- 15.6. Contract Management section and SCM unit must ensure that the tender specifications and the minimum terms and conditions as per the bid documentation are included in the service level agreement.
- 15.7. Contract Manager in conjunction with the Legal Services and user department must ensure that the following are determined for inclusion in the service level agreement;
 - 15.7.2. Performance, tracking and reporting;
 - 15.7.3. Legal compliance;
 - 15.7.4. Third party dependencies;
 - 15.7.5. Subcontractor relationships that service provider may enter into and the terms thereof;
 - 15.7.6. Exclusive relationship with service provider and the circumstances under which a client may engage other service providers;
 - 15.7.7. Service provider's duties and responsibilities
 - 15.7.8. Security and information security;
 - 15.7.9. Timeframes of signing of SLA, i.e. 21 days;
 - 15.7.10. Intellectual property rights and confidential information; and
 - 15.7.11. Conditions for termination of the agreement.
- 15.8. The Municipal manager or chairperson of the BAC, in conjunction with the user department must co-sign the service level agreement with the service provider.

15.9. Roles and Responsibilities

15.9.2. Service provider

15.9.2.1. Must ensure that all requirements as per the SLA are met;

15.9.2.2. Must provide quarterly SLA Compliance Report and other self-assessments to verify compliance

15.9.3. Contracts Manager.

15.9.3.1. Verifies service provider's compliance assessments by;

15.9.3.2. Tracking the SLA-related exception reports

15.9.3.3. Reviewing the SLA Monthly Compliance Reports and other self assessments

15.9.3.4. At its sole discretion, independently verifying the compliance with certain SLAs;

15.9.3.4.1. Resolving each SLA issue that effects the Municipality with the service provider; and

15.9.3.4.2. Escalating the unresolved SLA issues to Municipal manager.

15.9.3.5. Must review the service level agreement, on a regular basis, preferably annually.

15.9.4. Legal Services

15.9.4.1. In conjunction with the user department must prepare the service level agreement.

15.9.4.2. In conjunction with the User department must negotiate the terms of the service level agreement with the service provider.

15.9.5. User department

15.9.5.1. In conjunction with the Legal Services must prepare the service level agreement.

15.9.5.2. Must vet the service level agreement for relevance and accuracy prior to engaging the service provider.

15.9.5.3. Must negotiate the service level agreement with the service provider in conjunction with the Legal services.

15.10. The original signed SLA must be kept by the Contracts Manager.

15.11. Copies of the SLA must be provided to the user department and the service provider for their records.

15.12. Original version(s) of the service provider's tender documentation including proposal must be maintained by the Supply Chain Management function of the Municipality.

- 15.13. In addition to the service level agreement, the appointed service provider must be compelled to complete and duly sign the MBD7 form as per the National Treasury guidelines and the documentation must be attached to the proposal maintained by the SCM function of the Municipality.
- 15.14. The offer and acceptance form (i.e. MBD7 form) must be signed by the appointed service provider and the Municipal manager or delegated official of the Municipality.
- 15.15. Contract management section of the Municipality must ensure that the SLA Lifecycle comprises of the following six different phases;
- 15.15.2. development of service and service templates;
 - 15.15.3. discovery and negotiation of an SLA;
 - 15.15.4. service provisioning and deployment;
 - 15.15.5. execution of the service;
 - 15.15.6. assessment and corrective actions during execution (parallel phase to execution of the service); and
 - 15.15.7. termination and decommission of the service.
- 15.15.8. As a Service Level Agreement can be used in many areas, there are several types of SLA's that can be used, including:
- 15.15.9. Customer SLA: This is where there is an agreement with an individual customer
 - 15.15.10. Service SLA: This service agreement is for every customer making use of the services being provided
 - 15.15.11. Multi-level SLA: This is a combination of levels with the purpose of addressing multiple sets of customers
 - 15.15.12. Corporate SLA: This covers all Service Level Management (SLM) issues
 - 15.15.13. Customer Level SLA: Covers all SLM issues that apply to a particular group of customers
 - 15.15.14. Service Level SLA: This covers all SLM issues that apply to specific services.

ANNEXURE A: ROLES AND RESPONSIBILITIES OF:

1.1 Municipal manager

- 1.1.1. Municipal manager in his capacity as an Accounting Officer must take all reasonable step as to ensure that the contracts or agreements of the Municipality are properly enforced.
- 1.1.2. Must ensure that a comprehensive delegations system is in place and that staff with delegated authority have the necessary competence to carry out their tasks and provide appropriate and timely advice.
- 1.1.3. Regularly report to the Council of the Municipality on the management of contract(s) or agreement(s) and performance of service providers.
- 1.1.4. Approve the contract variation based on the recommendation of the Contract Manager in consultation with the user department.
- 1.1.5. Approve the price escalation provided for in the contract based on the commendation of the user department and Contract Manager.
- 1.1.6. Approve the price escalations not provided for in the contract based on the recommendation of the Contract Manager in consultation with the Chief Financial Officer.

1.2. Contracts Manager:

- 1.2.1. Contracts Manager is the official responsible for monitoring, regulating and reporting on all contracts related activities.
- 1.2.2. Must monitor on an on-going basis the financial health, tax compliance and overall performance of the prime and key supplier's.
- 1.2.3. Must ensure that an appropriate systems (manual or computerized) are developed and implemented to ensure proper management control and monitoring of contracts;
- 1.2.4. With the delegated authority from the Municipal manager, must monitor on a monthly basis the performance of service providers under the contract or agreement.
- 1.2.5. Responsible for managing the different types of contracts and provide summary and exception reports for each type as part of the contract and performance monitoring.
- 1.2.6. Prepare a report for the Municipal manager, at least on a quarterly basis, on the performance service providers and on the management of contract or agreement.
- 1.2.7. Ensure that payments as per general ledger are reconciled to the contract register.
- 1.2.8. Ensure the contract registers are update for each contract awarded by the Municipality.
- 1.2.9. Must ensure that he/she clearly understand the contract terms and ramification around keys issues including, termination; warranty; indemnity; security; confidentiality and dispute resolution.
- 1.2.10. Must submit consolidated report on the performance of contracts or agreement to the Municipal manager within 15 business days after the end of each quarter.

- 1.2.11. Must ensure that the user(s) and service provider (s) adhere to the terms and conditions of the contract.
- 1.2.12. Must handle all legal aspects of the contract and/or refer to the relevant department, i.e. Legal Services Department.

SHARED RESPONSIBILITIES

- 1.2.13. In consultation with the User department must recommend for approval by the Municipal manager the price escalations provided for in the contract.
- 1.2.14. In consultation with the Chief Financial Officer must recommend for approval by the Municipal manager price escalations not provided for in the contract.
- 1.2.15. In consultation with the Project Manager must take appropriate action where a contractor is underperforming or is in default or breach of the contract
- 1.2.16. In consultation with the user Department must ensure that the inception report is completed at inception of the contract.
- 1.2.17. In consultation with the Project Manager must ensure that the frequency of reporting is determined.
- 1.2.18. During both the preparation for annual report and strategic plan and budget, undertake a comprehensive review of the existing, recently completed and proposed in conjunction with the user Department.

1.3. Project Manager:

- 1.3.1. The Project Manager is responsible for the following activities:
 - 1.3.1.1.site visits in accordance with the requirements of the contracts;
 - 1.3.1.2.prepare contractors performance report to the user department and Contract Manager within 5 business days after the end of each month.
 - 1.3.1.3.ensuring that purchase orders with correct ledger accounts are captured on the financial system in accordance with the pricing schedule;
 - 1.3.1.4.maintaining adequate records (paper and/or electronic) in sufficient detail on an appropriate contract file to provide an audit trail;
 - 1.3.1.5.inform the Asset Management section of the location of newly procured assets for asset register and insurance purposes;
 - 1.3.1.6.where appropriate, authorize payments due in terms of the contract by processing invoices/Goods Received Notes.
 - 1.3.1.7.submit monthly performance reports to the Contracts Manager on service providers /suppliers' performance in meeting the terms and condition of the contract (Including price escalation);

1.3.1.8. ensure performance of service provider is managed (Champion) appropriately to the terms and conditions of the contract including establishing and managing of:

1.3.1.8.1. non-performance is addressed with at least a formal letter advising specific non-performing areas and stating remedial action/s required within specific time frames;

1.3.1.8.2. good performance is recognised and communicated through established channels, and

1.3.1.8.3. all parties participate in joint performance reviews where appropriate, and seek improvement opportunities.

SHARED RESPONSIBILITIES

1.3.2. In consultation with the Contract Manager must ensure that the frequency of reporting is determined.

1.3.3. In conjunction with the user department must prepare a completion report for contracts entered into with service provider.

1.3.4. In consultation with Legal Services must ensure that all the necessary legal formalities in entering into the contract are adhered to.

1.3.5. In consultation with the Contract Manager must take appropriate action where a contractor is underperforming or is in default or breach of the contract;

1.4. User Department:

1.4.1 The user department is responsible for ensuring that the Project Manager is:

1.4.1.1. assigned to all contract; and

1.4.1.2. Adequately trained so that they can exercise the necessary level of responsibility in the performance of their duties.

1.4.2. The User department must ensure that Project Managers submit suppliers' performance reports to the Manager within 5 business days after the end of each month.

1.4.3. Must submit a consolidated report for their Directorate to the Contracts Manager within 10 business days after the end of each quarter.

SHARED RESPONSIBILITIES

1.4.4. In consultation with the Contract Manager must ensure that the inception report is completed at inception of the contract.

1.4.5. During both the preparation for annual report and strategic plan and budget, must undertake a comprehensive review of the existing, recently completed and proposed in conjunction with the Contract Manager.

1.4.6. In conjunction with the Project Manager must prepare a completion report for contracts entered into with service provider.

1.4.7. In consultation with the Contract Manager must recommend for approval by the Municipal manager the price escalations provided for in the contract.

1.5. User:

1.5.1. The user(s) is responsible for ensuring the following activities;

1.5.1.1. day to day management of the contract; and

1.5.1.2. ensuring that goods received are in accordance with the terms of the contract and contract timeframes.

1.6. Budget and Treasury Department:

1.6.1. Chief Financial Officer of the Municipality must ensure that adequate budget is available for procurement of any goods and services as per the contract.

1.6.2. Must ensure efficient processing of payments according to the contract(s).

SHARED RESPONSIBILITIES

1.6.3. In consultation with the Chief Financial Officer must recommend for approval by the Municipal manager price escalations not provided for in the contract.

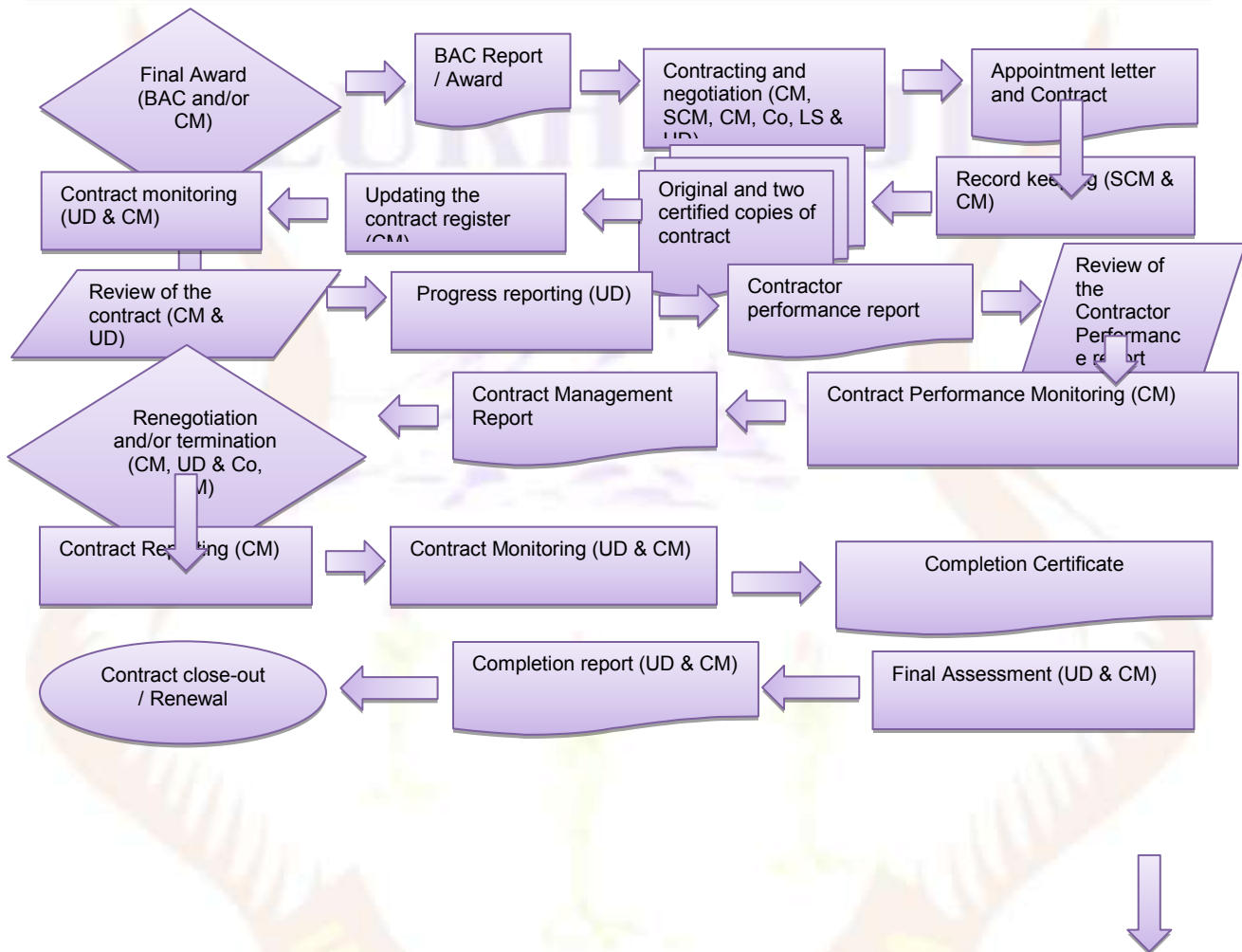
1.7. Legal Services

1.7.1. Must attend to all legal matters pertaining to contracts referred to by the Contracts Manager.

SHARED RESPONSIBILITIES

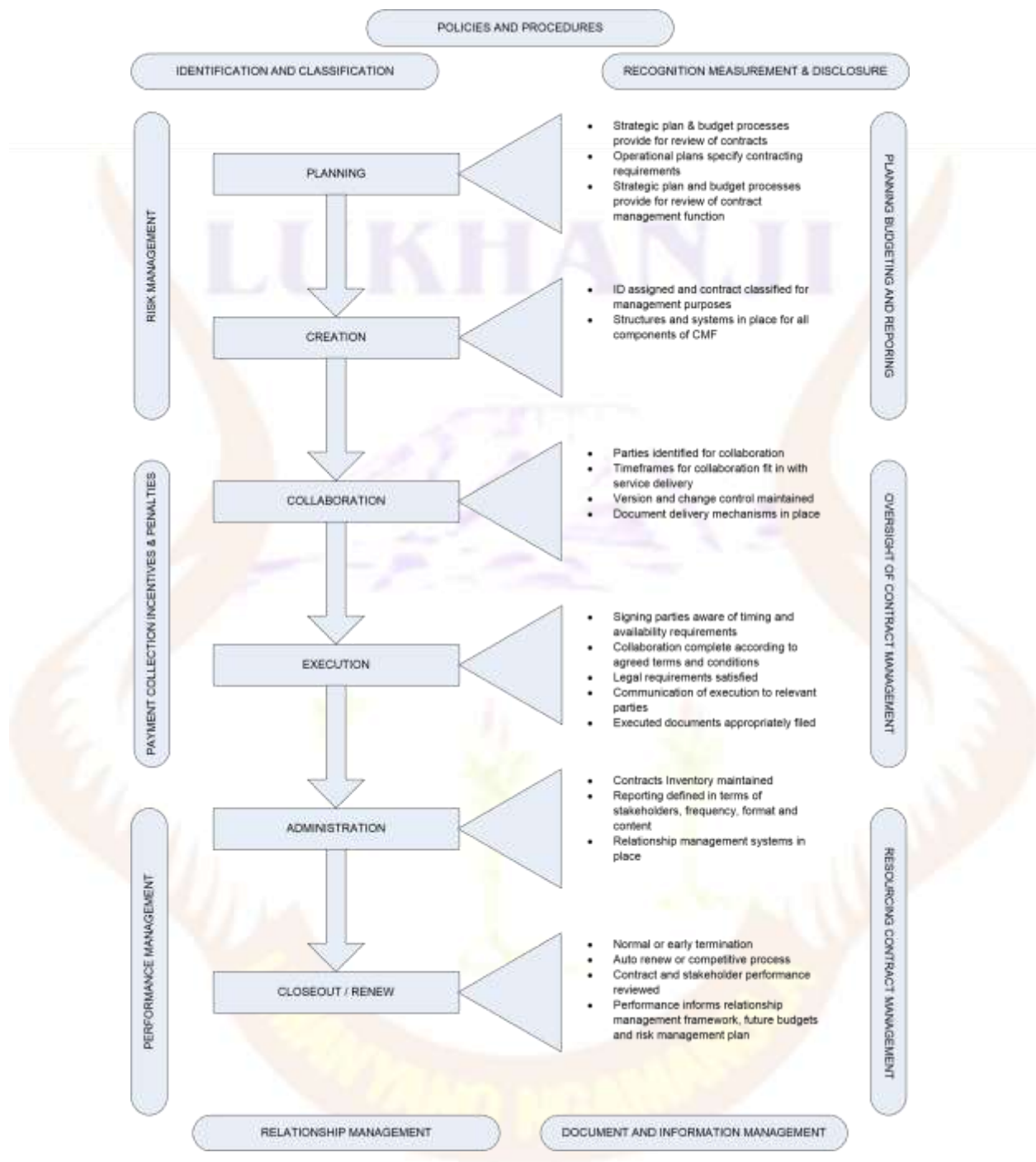
1.7.2. In consultation with Project Manager must ensure that all the necessary legal formalities in entering to contract are adhered to.

ANNEXURE B: CONTRACT AND PERFORMANCE MANAGEMENT FLOWCHART



ANNEXURE C: “CONTRACT LIFE CYCLE CHECKLISTS”

The diagram below illustrates how the Contract Management Framework (CMF) encompasses the Contract Life Cycle (CLC). For each stage of the CLC an example checklist is provided. As you apply each checklist in the institution, ensure that all components of the CMF have been considered and the relevant policies and procedures are in place.



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Checklist - Planning

- ✓ Strategic planning and budgeting processes provide for review of contracts
 - Existing contracts continuing through or concluding during the budget year
 - Proposed contracts commencing in the budget year
 - Advance planning for contracts required in future years
- ✓ Operational plans developed at budget time specify contracting requirements
 - Suppliers, buyers, stakeholders identified – refer to relationship management framework
 - Time frames specified for
 - Creation
 - Collaboration
 - Execution and commencement
 - Reviews
 - Closeout / renewal
 - Objectives of each contract linked to strategic objectives of the institution
 - Communication to relevant internal and external stakeholders regarding contracting requirements
 - Link to annual procurement plan on the purchasing side
 - Link to annual sales and distribution plan on the sales side
- ✓ Strategic planning and budgeting processes provide for review of contract management function
 - Issues identified during year and from AFS and Annual Report
 - Contract management policies and procedures
 - Identification and classification
 - Recognition, measurement and disclosure

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- Planning budgeting and reporting
- Oversight
- Resourcing contract management
- Document and information management
- Relationship management
- Performance management
- Payment, collection, incentives and penalties
- Risk management

Checklist - Creation

- ✓ Contract ID assigned
- ✓ Contract classification for management purposes
- ✓ Budget, implementation and in-year monitoring structures in place
- ✓ Contract oversight structures in place
 - Supplier / buyer / stakeholder induction completed
 - Contract manager appointed
 - Steering group and other advisory and oversight structures in place
 - Handover from bid and award stage to contract management
 - Contract management plan in place
- ✓ Contract management resources appropriate for classification
- ✓ Contract documentation systems in place
 - Original signed hard copy contract on file
 - Electronic copy of original signed contract on file (PDF)
 - Key information and trigger points recorded in the contract management system

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- ✓ Appropriate supplier relationship structures in place
 - Roles and responsibilities of supplier, contract owner, and contract manager defined
 - Formal and informal communication channels clear
 - Conflict resolution mechanisms and escalation routes identified
 - Regular meeting dates set (monthly / quarterly / annually)

- ✓ Performance management systems in place
 - Performance management processes and metrics agreed with stakeholders prior to contract commencement
 - Performance measurement metrics consistent with institution's strategic objectives
 - Performance reviews set (monthly / quarterly / annually) and documentation defined

- ✓ Payment, collection, incentive and penalty systems in place
 - Payment or collection processes and remedial action understood by all parties
 - Incentive or penalty provisions linked to outcomes and strategic objectives of institution

- ✓ Risk management plan in place
 - Risk identification, and assessment completed
 - Potential risk response documented
 - Risk management plan is in line with institution wide Risk Management Plan

Checklist Collaboration

- ✓ Parties for collaboration are appropriate
 - Contract owner
 - Legal
 - Finance

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- Risk management
- Audit
- Insurance
- External parties to contract
- ✓ Timeframes for collaboration take into consideration operational deadlines for service delivery
- ✓ Version and change control is maintained in an efficient manner
- ✓ Delivery mechanisms are appropriate

Checklist - Execution

- ✓ Signing parties (including witnesses) are aware of timing and availability requirements well in advance
- ✓ Required collaboration is complete and execution is in line with agreed terms and conditions
- ✓ Legal requirements are in order
- ✓ Execution and final terms and conditions communicated to all relevant internal and external parties
- Contract owner
- Contract manager / administrator
- External parties to contract
- ✓ Executed documents appropriately filed

Checklist - Administration

- ✓ Maintenance of Contracts Inventory
- ✓ Stakeholder ID (e.g. supplier or buyer ID and name)
- ✓ Contract ID, and description
- ✓ Contract value (total and annualised)
- ✓ Contract duration

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- ✓ Classification for management purposes and appropriate management intervention required
 - Oversight
 - Resources
 - Document and information management
 - Relationship management
 - Performance management
 - Payment, collection, incentives and penalties
 - Risk management
- ✓ Stakeholders to receive reports
- ✓ Frequency of review and reporting
- ✓ Reporting requirements defined including documentation format and information content
 - Contracts likely to give rise to contingent assets or liabilities
 - Recently closed contracts
 - Recently renewed contracts
 - Impending contract commencement
 - Key trigger points
 - Tax clearance maintained and other statutory and compliance requirements
 - Risk management issues
 - Performance issues by exception (good and poor)

Checklist – Closeout/Renew

- ✓ Contract ID, description and classification
- ✓ Contract closeout
 - Early termination
 - Normal termination
- ✓ Contract renew

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- Auto renew
- Competitive process
- Other
- ✓ Deliverables reviewed (actual v budget)
 - Quantities
 - Prices
 - Total values
 - Timeliness of delivery
 - Service levels or specifications
- ✓ Performance review completed
 - Performance rating (1 – 5)
 - Value for money achieved (Y/N)
 - Considered for future contracts (Y/N)
- ✓ Relationship management framework informed
- ✓ Change supplier, buyer or other stakeholder
- ✓ Future budgets informed
- ✓ Risk management plan informed

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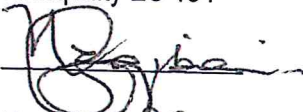
Quality Certificate

I, N. Z. Qaiba, the Municipal Manager of Lukhanji Municipality, hereby certify that the Draft Budget and Supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the Budget and Supporting documentation are consistent with the Integrated Development Plan of the municipality.

Municipal Manager

Lukhanji Municipality EC 134

Signature



Date 2016.03.29